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Too many convicts

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Print Edition August 10th 2002

Too many convicts
America's tough crime policy is having unintended consequences ... More on this week's lead article

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Politics this week

Aug 8th 2002
From The Economist print edition

More talk, more killing

Reuters

Palestinian Authority officials were expected to discuss a new "**Gaza first**" plan (under which Israel would lift its siege on Gaza in return for a crackdown on militants) with Colin Powell, America's secretary of state, in Washington. In Israel and Palestine the violence continued; a bus bombing in Israel killed nine people. The UN General Assembly passed a resolution calling for Israel's immediate withdrawal from Palestinian towns; America and Israel voted against it.

See article: Israel and the Palestinians

Iraq's foreign minister wrote to Kofi Annan, the UN's secretary-general, inviting the chief arms inspector to Baghdad for "technical talks". Mr Annan replied by saying that Iraq should obey the Security Council's demands on inspection. America said that the return of the inspectors would not affect its determination to change Iraq's regime.

See article: Iraq and the UN

A foreign office minister, Mike O'Brien, became the first British minister to visit **Libya** in nearly 20 years when he called on Muammar Qaddafi to talk about terrorism and about Iraq. The Libyans said they were ready in principle to pay compensation to relatives of the victims of the 1988 Lockerbie bombing.

Soldiers continued a mutiny over pay in a remote eastern area of **Niger** but released some hostages. A fresh and apparently unrelated mutiny broke out in the capital, Niamey, but was put down.

At least 22 people died in border clashes between **Chad** and the **Central African Republic** (CAR). The CAR complains of frequent raids by Chadian cattle thieves and followers of the former head of the Central African army, who fled to Chad after a failed coup.

Nigeria's president, Olusegun Obasanjo, postponed local elections scheduled for August 10th on the grounds that preparations were incomplete. No important election has been held in Nigeria since the one ending military rule in 1999.

Swaziland's king bought a private jet costing $55m; twice the amount the UN has appealed for to stop 250,000 Swazis starving this year.

Turkey turning

Turkey's parliament voted for wide reforms to meet EU conditions for opening talks on membership: rights for the Kurdish language, less restraint of free speech, no death penalty except in time, or under threat, of war.

See article: Turkey's reform programme

Italy's senate backed a bill that would allow prosecution or defence to have a criminal case transferred to another court on "legitimate suspicion" that the judge was biased. A "save Berlusconi" bill, in the eyes of the left; nonsense, said the Italian prime minister. The bill now goes to the lower house.

A bomb killed a six-year-old girl and a man in a **Spanish** seaside resort. An angry public blamed ETA terrorists—rightly, on past form—and the government took the first steps to have ETA's political wing, Batasuna, banned.

Tony Blair, the one European leader firmly ready for a strike against Iraq, found grandees queuing up against: not just the new Archbishop of Canterbury, but Douglas Hurd, foreign minister during the Gulf war, and the then top civil servant at the defence ministry. Plus a former chief of the defence staff under Margaret Thatcher.

See article: British foreign policy, America and Iraq

Tension in Taiwan

Taiwan cancelled naval exercises after an angry Chinese response to a statement by Chen Shui-bian, Taiwan's president, which declared the two countries separate and hinted at a referendum.

See article: Taiwan and China

Work finally began on the construction of two nuclear reactors in **North Korea**, under a deal signed in 1994.

South Korea held 13 parliamentary by-elections, seen as an indicator for December's presidential poll.

At least six people were killed when gunmen opened fire on the Murree Christian School, near **Pakistan's** capital, Islamabad. Three men suspected of involvement in the attack later blew themselves up escaping from police in Pakistan-administered Kashmir.

An attack in Indian-ruled **Kashmir** left nine Hindu pilgrims dead and 37 injured. India blamed the Pakistan-based militant group Lashkar-e-Taiba, although both Pakistan and the militant group denied any involvement.

Thousands of students protested in the **Indonesian** capital, Jakarta, demanding constitutional reforms including unconditional direct presidential elections and the abolition of 38 parliamentary seats reserved for the army.

EPA

With friends like these...

America's State Department reassured Saudi Arabia that the administration's views were not reflected in an independent briefing, made to a Pentagon advisory panel, that described Saudi Arabia as America's "**most dangerous opponent**" in the Middle East. The briefing also recommended that Saudi Arabia be given an ultimatum to stop backing terrorism or face seizure of its oilfields and financial assets.

See article: Strong words about Saudi Arabia

The American Servicemembers' Protection Act—better known as "the Hague Invasion Act"—became law. American government bodies may not co-operate with the **International Criminal Court** in any way and the ICC is barred from conducting any investigations in America.

Friend in need

The IMF moved to quell the economic crisis in Latin America by offering a $30 billion bail-out for Brazil, the region's biggest economy. And the United States gave **Uruguay** a $1.5 billion bridging loan to allow

it to re-open its banks, which had been hit by a run on deposits. Uruguay expects to repay the money within days from a new $3.8 billion IMF-led loan.

See article: Latin American bail-outs

Rebels fired mortars at the presidential palace in Bogota, while in the next-door Congress building Alvaro Uribe was being sworn in as **Colombia's** new president. At least 13 people were killed when a mortar hit a nearby slum. The attack carried the hallmarks of the FARC guerrillas.

See article: Colombia's new president

Bolivia, too, got a new president. Gonzalo Sanchez de Lozada, a liberal reformer and mining magnate who held the job from 1993-97, was chosen by Congress, after winning 22.5% of the vote at an election in June. Mr Sanchez has formed a coalition government but will face opposition from irate coca farmers, whose leader won 21% of the vote.

See article: Bolivia's new president

Joe Clark, a former prime minister, said he would stand down as leader of **Canada's** opposition Progressive Conservative party at a convention in February. His decision sparked a new bout of speculation as to whether the country's two right-wing parties might merge.

See article: Canada's leadership battles

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Business this week

Aug 8th 2002
From The Economist print edition

Mighty appetite

Nestlé took a bite of the American fast-food market with the acquisition of Chef America, a frozen-snack maker, for $2.6 billion. Nestlé has embarked on a transatlantic buying spree including the recent purchase of a controlling interest in Dreyer, a premium ice-cream brand. The Swiss food giant is also thought to be a front runner to buy Hershey, America's biggest confectioner.

Energy traders suffered further battering. A former senior executive of **Dynegy** filed a lawsuit alleging that he was sacked for refusing to doctor the company's books. Dynegy dismissed the claims but saw its shares plunge anyway. **Mirant** announced that the Securities and Exchange Commission would undertake an “informal inquiry” after the company revealed “honest mistakes” in its financial statements for 2001. Its shares suffered.

See article: America's frazzled energy sector

Samuel Waksal, a former CEO of **ImClone**, an American drug company, was charged with bank fraud and obstructing justice. In June, Mr Waksal was arrested on related charges of insider-trading, accused of tipping off members of his family to sell ImClone shares.

Microsoft made a concession as part of its settlement with the Department of Justice of a long-running antitrust case. The software giant said that it would open Windows a little wider by revealing technical details that could help competitors to write programs to run on its operating system. However, nine states, seeking harsher penalties, still oppose the settlement. A final court decision on the severity of Microsoft's punishment is expected within months.

Jonathan Miller was appointed as CEO of **AOL Time Warner's** embattled America Online division to replace Robert Pittman, the company's former chief operating officer, who had been in charge temporarily before he resigned in July.

See article: AOL gets a new boss

Anglo American, a large mining company, said that it would offer AIDS drugs to its workers in southern Africa. It employs some 90,000 people in the region; around a quarter are probably infected with the virus. AngloGold, a subsidiary, will do the same for its 44,000 workers in southern Africa.

See article: Anglo American and AIDS

In ascent

Ryanair's results confirmed that travellers are still flocking to budget airlines. Profits at the Irish airline in the latest quarter were up by 68% over a year ago to *euro*39m ($36m) though that quarter's profits were affected by the costs of opening new routes. After a terrible year, **British Airways** did a little better than expected in its first quarter, announcing pre-tax profits of £65m ($95m), up 63% over a year ago.

Third generation unlucky

The prospects for European **third-generation mobile telecoms** looked a little bleaker. Orange, a

subsidiary of France Telecom, asked Sweden's authorities to allow it to delay its provision of 3G services in the country for three years.

America reportedly hit **North Korea's** hopes of joining the rest of the world in pointless chatter. It opposed South Korea's plans to build a mobile-phone network for a member of the “axis of evil” and could use the law to stop Qualcomm, an American firm, from supplying equipment.

Old money

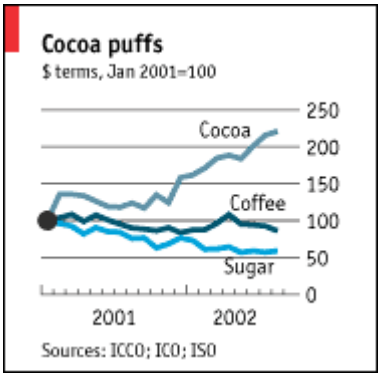
Cazenove, London's most upper-crust investment bank, lost David Verey, a joint deputy chairman and heir apparent to its chairman, David Mayhew, just eight months after he joined from blue-blooded rival, Lazard Brothers. The secretive bank gave no reason for Mr Verey's departure but rumours circulated of a row over his role at the bank and its planned flotation.

The problems of **Martin Ebner**, a heavily indebted Swiss financier, mounted. The debts of his private-investment empire, BZ Group, are estimated at up to SFr10 billion ($6.6 billion). The group's fate is in the hands of creditors. A consortium of banks is said to have provided some respite with a moratorium on debt repayments.

See article: Swiss corporate raider gets come-uppance

Bitter harvest

Cocoa may be a main ingredient of a futures-market confection. In July, Armajaro, a trading company, scooped up three-quarters (some 200,000 tonnes) of the available supply of the bitter bean at London's LIFFE futures exchange. Some traders suspect an attempt to push up prices in advance of the September harvest in Côte d'Ivoire. Cocoa prices have risen by 121% since the beginning of 2001; prices of other “soft commodities”—sugar and coffee—have fallen.



Correction: Last week we stated wrongly that Pearson (part-owner of *The Economist*) had announced that its profits for the current year would be down by as much as 15%. In fact, this figure referred only to the FT Group, just one part of the media company. Pearson actually expects profits to grow strongly this year.

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Justice in America

Too many convicts

Aug 8th 2002
From The Economist print edition

America's tough crime policy is having unintended consequences

Get article background

TODAY is a special day for 1,600 American men and women: they are being released from a state or federal prison. Tomorrow will be a special day for another 1,600 people. As will be the day after that. Some 600,000 inmates will leave prison this year—more than the population of Washington, DC. After quadrupling its imprisonment rate in just 30 years—America now has 700 people in every 100,000 under lock and key, five times the proportion in Britain, the toughest sentencer in Western Europe—the world's most aggressive jailer must now confront the iron law of imprisonment: that those who go in almost always come out.

The result is a society that, statistically at least, is beginning to look a little like early Australia. Nearly one in eight American men has been convicted of a felony—and thus, in many states, has been automatically deprived of numerous rights, including the right to vote. One in 20 men has been to jail. The average is much higher among some groups (one black man in five has been to prison, one in three has been convicted of a felony). These convicts, particularly those who have been to prison, contribute little good to the places where they live. Two-thirds of ex-prisoners are rearrested within three years. Prisons are a breeding-ground for terrible diseases, both medical (such as AIDS) and social (the Aryan Brotherhood), that soon spread to the outside world.

The high rates of imprisonment are partly related to the number of crimes committed in America; but they also reflect a determined policy to increase the number of mandatory sentences, particularly for drug offences. Since the 1980s, laws have limited the discretion both of judges to make the punishment fit the crime and of parole boards to determine when prisoners are fit to be released. In the ten years after 1986, the average term in federal prison rose from 39 to 54 months.

Did it work?

This offensive against crime is generally held to be a success. America's crime rate has fallen in recent years, and though it has now started to rise again, no politician in America thinks that arguing for more lenient treatment of criminals will bring in votes. That does not mean that it would be wrong to do so. Put simply, America probably sends people to prison too willingly, and looks after them too carelessly afterwards. Some believe that the upturn in the crime rate is directly linked to the number of unreformed ex-convicts on America's streets.

There is a good case for opposing tough mandatory sentences merely on moral grounds. Locking up a young woman for ten years just because her boyfriend was a drug-dealer ill becomes a civilised country. But there are also practical doubts about America's sentencing policy. The lower crime figures may have had more to do with demography (fewer young men around) and changes in policing than with sentencing policy. Once you compare like with like, a different picture emerges. America's fiercest imprisoner, Texas, which locks up more than 1,000 people for every 100,000 citizens, has far worse crime statistics than New York state, where the imprisonment rate has risen much more slowly. And when it comes to drugs and violent crime, the two plagues hard sentencing was supposed to cure, it has failed dramatically. Drug-taking is as widespread as ever, and America's murder rate is still nearly four times higher than the European Union's.

The argument about sentencing is an old one. So the clamour emanating from it has tended to obscure the other side of the debate—whether America treats its prisoners and felons too roughly. That deafness may be deliberate: for many Americans, sentencing has now become purely a matter of punishment. But it surely behoves those who favour sending ever more people to prison to try to make prison work better. Each prisoner who emerges unreformed will start committing crimes again (a more frightening thought when you realise that one in four commits violent crimes). Even if such people are caught quickly, it costs money to imprison them: America spends more than $50 billion a year on its prison system.

From the land of second chances to the land of no hope

Rehabilitation has become something of a dirty word in American debates about crime. Prisons the world over are fairly awful places, with a poor record of converting people from a life of crime. Even so, America's system seems peculiarly devised to ensure that prisoners remain criminals.

To begin with, some rehabilitation projects—particularly drug treatment—seem to work. Yet America has slashed money for such schemes, often to pay for new prisons. One advantage of leaving some degree of discretion over sentencing to parole boards was that it obliged prisoners to prove that they were ready for outside life. This incentive has now gone. Outside prison, the aftercare system is even weaker. Many ex-cons are simply presented with a one-way bus ticket. The number of prisoners for each parole officer has risen by 50%.

These deficiencies might all be described as failures of care. Worse still are those of discrimination. Trying to restart life as a felon is difficult for all sorts of reasons; in America, the government loads on many more. There is a long list of jobs from which felons are banned, many of them having nothing to do with security. In some cases they are denied housing benefit. And, of course, nearly 5m of them are denied the vote. So a convict can pay taxes, own property, send his children to school. Ought he also to be deprived, permanently in many cases, of a voice in how society is governed?

This question matters, because it goes to the root of how America treats criminals. Punishment requires a fixed term. In justice, just as much as in literature, every sentence finishes, eventually, with a full stop. After that the ex-convict should enjoy the same rights as anybody else. He has served his time. America is not alone in denying its convicts the vote. But it seems odd that a country built on giving people a second chance (and a country, incidentally, with one of the most forgiving bankruptcy laws in the world) should have turned against this principle so savagely when it comes to convicts. Particularly now that it is creating so many of them.

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Europe's Muslims

Aug 8th 2002
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Islam is now firmly established in Western Europe. Don't be afraid of it

AP

Get article background

WHO'D be a Muslim in the West? In recent decades, indifference to Islam has turned first to disdain, then to suspicion and more recently to hostility. Public attitudes have been coloured successively by petro-powered sheikhs, Palestinian terrorists, Iranian ayatollahs, mass immigration and then the attacks of September 11th, executed if not planned by western-based Muslims and succoured by an odious regime in Afghanistan. Most recently, amid rising concern about immigration in general, Muslims have had to contend with the charge that aspects of their religion are fundamentally—the very word is freighted with images of hairy, wild-eyed fanatics—at odds with the liberal, democratic values of the West. Yet millions of Muslims live in the West—perhaps 1.3m in Britain, 3.2m in Germany, 4.2m in France—and Islam is the fastest growing religion in the United States. Indeed, it is the fastest growing religion in the world. It would be serious if it really were incompatible with liberal, democratic values.

Fortunately, it is not. The idea that Muslims constitute an alien fifth column does not hold up. The vast majority live happily beside their neighbours, submit readily to the laws of the land and have no wish to overthrow the government. If a few do believe that religious injunctions take precedence over temporal laws, so also do some Christians (in America, the Balkans, Northern Ireland), some Hindus (in secular, democratic India) and some Jews (in democratic Israel). Individual Muslims flourish in western societies, be they the owner of the corner-shop, the prosperous tycoon, the eminent surgeon or the Aga Khan. Most work hard, hold strict family values and commit no crimes: model citizens, you might say.

Yet it would be idle to pretend that Muslims do not present problems in the West. These are of two kinds. First are the problems associated with many other immigrant groups. Like these other migrants, Muslims tend to come from poor, rural areas; most are ill-educated, many are brown. They often encounter xenophobia and discrimination, sometimes made worse by racist politicians. They speak the language of the wider society either poorly or not at all, so they find it hard to get jobs. Their children struggle at school. They huddle in poor districts, often in state-supplied housing. For all these reasons they tend to withdraw into their own world, which is relatively easy, since their numbers are great enough to enable them to form a fairly self-sufficient, self-contained community. But this is not the way to fit into society at large.

Here to stay

Governments and other institutions can help. They can, for a start, recognise the obvious, which is that most of these immigrants are in the West to stay. If they are to become good members of society, then, they must be given citizenship, the right to vote and all the other rights that other citizens enjoy. Only slowly are some governments coming to this view: probably no more than 10% of the Muslims in Germany, for example, are entitled to vote there. In France, the belief that immigrants should give up all the cultural characteristics of their native societies has been slow to die; assimilation, rather than integration, has been the traditional aim. Governments must also take steps both to outlaw racial discrimination and to promote the employment of Muslims and other minorities. Here, too, France and Germany lag. Neither yet has a body similar to Britain's 36-year-old Commission for Racial Equality.

Immigrants themselves, however, must make an effort to integrate, and Muslims no less than others,

especially as their religion does present particular difficulties. Some in this, the second, category of problems may be cultural, though the trouble that even Muslims may have in deciding whether habits are religious or cultural gives an insight into the all-pervading nature of religion in a devout Muslim's life. Thus, though a Muslim of Pakistani origin in Britain may well say, for instance, that arranged marriages are obligatory under Islam, the idea would be dismissed by most Turks in Germany. Similarly, the ritual slaughter—to some consternation among the wider public—of tens of thousands of sheep in France at the feast of Aid al-Adha each year has no counterpart in Britain.

Islam does, of course, impose some obligations, and zealots say they include outright hostility to the tenets of western society. That, however, is not the view of most Islamic scholars, and the vast majority of Muslims find they can follow their religion in the West without serious difficulty, and without causing annoyance. Rows about headscarves and *halal* meat at school, not uncommon a few years ago, are now rare.

Clerical chaos

One difficulty for the authorities, though, is knowing whom to deal with. Islam, like Judaism, is a religion without a clear hierarchy or firm structure. Europe's Muslims are represented by umpteen different groups, often squabbling and often as concerned with the interests of a government abroad as with those of the people they say they want to help. Imams can, and do, spring up almost spontaneously, supported perhaps by a few devotees, financed usually from North Africa, the Middle East or Asia, trained, often minimally, in a country where democracy is an unfamiliar concept, and answerable to no one but God. No wonder moderate grand muftis lament their lack of authority over extremist imams.

Some Muslim scholars call for the evolution of a “European Islam”, one that will take account of European culture and politics. That may be an unreasonable demand to make of a universal religion, but it does point up the dependence on foreigners of many, if not most, mosques in Europe, and of the foreign training of the imams who preach in them. This dependence not only encourages Europe's Muslims to perpetuate their links to their countries of origin at the expense of forging loyalties to their new homelands, it also provides an easy point of entry for extreme or hate-filled teaching from abroad. European Muslims need to finance their own mosques and train their own imams as quickly as possible. Governments can help, both by giving planning permission for purpose-built mosques—few exist in Europe—and by extending to Islam the privileges and tax breaks that are afforded to other religions.

In time, most Muslims will integrate successfully into western societies, especially if commonsense policies like language-teaching, job-creation schemes and anti-discrimination programmes are promoted. But the size and concentration of most Muslim communities may well mean that integration takes place more slowly for them than for, say, Afro-Caribbeans (see article). And meanwhile an additional difficulty is that, for Muslims who are disaffected or alienated from society, religion seems to provide a potent, and not necessarily benign, kind of solace.

The right response to any group that preaches violence—many Islamists do not—is to prosecute and ban it. And plainly, after September 11th, the police and security services have work to do (see article). But so, too, do others. Non-Muslims must show that Muslims have an equal place in western societies alongside the followers of other or no religions. And Muslims must show that they can organise their clergy and places of worship from within their own communities, and give no quarter to those who misuse Islam for violent ends.

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Rules of war

Naught for your comfort

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There was no massacre in Jenin. But let the joy be confined

EPA

BY NOW it is a footnote, but Kofi Annan, the UN secretary-general, has at last published his report on last April's battle at Jenin, the West Bank refugee camp where the Palestinians accused Israel of massacring up to 500 civilians. He concludes that although the Israelis and Palestinians alike were guilty of breaking some of the rules of war, there was no massacre. All the claims at the time about some 500 dead being buried beneath the rubble, or carted off for secret burial in refrigerated lorries, turn out to have been so much nonsense.

It now seems that the Palestinian death toll in Jenin was 52, of whom non-combatants numbered 14 (says Israel) or about 20 (say various human-rights organisations). It is true, as groups such as Human Rights Watch have pointed out, that Israel's refusal to co-operate forced Mr Annan to rely on second-hand sources. He was not able to investigate allegations that a few of the Palestinians were killed in cold blood, or that Israeli soldiers used civilians as human shields. But not even Human Rights Watch quibbles with the numbers. And though the killing of up to 20 civilians is no light matter, Mr Annan's report accepts that this was in the course of a fierce battle between Israel's soldiers (of whom 23 were killed) and up to 200 gunmen who had made the cramped camp their base.

Unimpressed

Needless to say, the most vocal critics of Israel find this report wanting. It is a whitewash, says one lot. Well of course there was no massacre, says another; we realised that long ago—but Israel does plenty of bad things in the occupied territories, from which this report should not distract attention.

Well, yes; Israel is doing plenty of bad things in the occupied territories, about which more later. But this “we knew there was no massacre all along” line is mystifying. If the newspapers that leapt to compare Jenin to the depredations of the Nazis or to Cambodia's killing fields (yes, really) have changed their minds, their retractions have passed us by. One reporter for Britain's *Independent* has apologised for his vivid account of the massacre that wasn't, pleading strangely in mitigation that he was feeling “furious” when he filed his erroneous despatch. But such honesty is rare. The *Guardian* has made a point of standing by its editorial which said that Israel's Jenin battle was “every bit as repellent” as Osama bin Laden's felling of New York's twin towers. The French magazine which reported that all nine children of one Abu Ali were dead in Jenin failed to pass on the later detail that they were all in fact alive. And if A.N. Wilson, a British intellectual, has had second thoughts about saying in London's *Evening Standard* that “we are talking here of massacre, and a cover-up, of genocide,” he has, so far as we know, kept them to himself.

In short, Israel is right to say it got a bum rap when it was accused of a massacre in Jenin. But, of course, so are those who say that this must not distract attention from the many hard things that Israel is indeed doing in the territories.

Since April, these have gone beyond the policy of assassinating suspected terrorists. As the Palestinian attacks have gathered pace, so has the severity of Israel's actions. Israel has put much of the West Bank under curfew for long periods, causing grave economic damage. It has begun to demolish the family homes of suicide bombers and to deport the relatives of some of them from the West Bank to Gaza. The

targeting of its assassinations is becoming more reckless: the recent killing of Hamas's military commander in Gaza and his bodyguard took 13 civilian lives as well. And, of course, the conflict is nibbling away at liberties inside Israel itself.

What justification can there be for such behaviour? To many Israelis, the answer is simple. To fight an enemy that observes no rules at all, Israel has to break rules too. For unlike the fighting in Jenin, and as organisations such as Amnesty International have belatedly acknowledged, the Palestinian suicide bombings are unambiguous war crimes. Most consist of the indiscriminate murder of as many civilians as possible. Their aim is to sow terror, and in this they have succeeded.

What good this “success” will bring the Palestinians is another matter. They have world sympathy, but less than before in Israel and America, the countries with most influence over their fate. The hope of international intervention has receded since George Bush decided to give up dealing with Yasser Arafat. What little diplomacy is taking place now is all about returning to where things were before Israel reoccupied the West Bank, a far cry from the talks two years ago about the final dimensions of a free Palestine. As for Israel, the country that prided itself on being an island of democracy in a sea of dictatorships is liable to become less liberal, less decent and more afraid to compromise. Nobody benefits from this *intifada*. It is past time for the Palestinians to call it off, if they still can.

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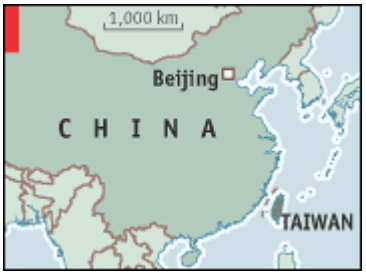
Taiwan and China

Full of sound and fury

Aug 8th 2002
From The Economist print edition

China should not threaten Taiwan for merely stating the obvious



IN ANCIENT China, disputes between rival states were often settled by each side drawing up its warriors on a convenient plain, where they would make warlike noises for a while before officials awarded victory to whoever was deemed to have won, based on numbers of troops, the prestige of the opposing generals, and such-like things. No actual fighting was needed.

The conflict between the two modern-day Chinese states, the People's Republic of China and the Republic of China (as Taiwan grandly calls itself), sometimes seems rather like that. Chen Shui-bian, Taiwan's president, launched the first strike in the latest verbal battle at the weekend when he declared that “with China and Taiwan...there is one country on each side” of the Taiwan strait. Since the Communists' contention is that there is only one China, whose capital is Beijing, they find this little short of treasonous, or “splittist”. When, with a follow-up salvo, Mr Chen declared that he might favour legislation permitting a referendum to settle the island's future, China struck back in force.

Warnings to Mr Chen to “stop the horse at the edge of the precipice”, because his actions could lead to “disaster”, sound very like threats of war to anyone not familiar with the formulaic nature of cross-strait rhetoric. In fact, the chances of conflict are remote. America, especially under President Bush, would almost certainly intervene on Taiwan's side; besides, Taiwan already has enough high-tech weapons to make an invasion very difficult for China to pull off. But the extraordinary rise in China's defence spending in recent years means that this balance cannot be relied on indefinitely.

The interesting question is why Mr Chen chose to speak out just now. Since becoming president in 2000, he has on the whole been careful to avoid offending China, which was deeply suspicious of him as the leader of the Democratic Progressive Party, historically in favour of independence. But it looks as though he has become frustrated by China's lack of response to his moderation, which has after all cost him a degree of support within his own party's ranks. Instead of rewarding him with friendly words, or even—which he most wants—a renunciation of the use of force against Taiwan, China has refused to talk to Mr Chen, his government or his party. It has declined to discuss opening direct links between the mainland and the island, unless Taiwan first accepts that such links are a domestic matter. Any talk of reunification, it says, must proceed on the basis that there is only one China. No wonder Mr Chen's patience has worn thin.

One can question whether it was wise of Mr Chen to anger the Chinese, but what he said was surely right. It is merely a recognition of reality to say that China and Taiwan are two states, not one: Taiwan may not have many embassies, thanks to relentless Chinese bullying of weak-spirited governments everywhere, but it is a member of the World Trade Organisation and the Asia-Pacific Economic Co-operation group. It competes in the Asian and Olympic Games (under the absurd name “Chinese Taipei”). It has an elected president and an elected parliament, and its 20m people enjoy rights and prosperity unknown to the 1.2 billion across the strait.

By routinely threatening force against Taiwan, China equates itself with Slobodan Milosevic and Saddam Hussein, both of whom shed blood to preserve their empires. Until it desists from such talk—even if talk is all it is—China can never be a full member of the community of civilised nations.

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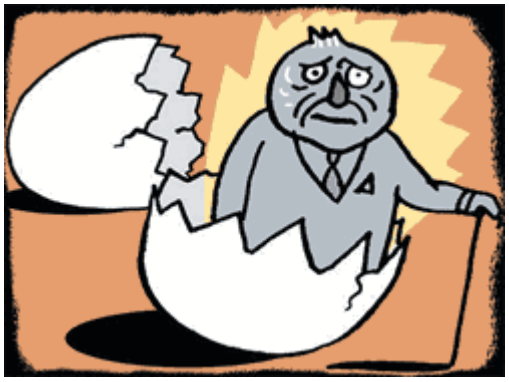
Chief executives

The case against grey

Aug 8th 2002
From The Economist print edition

Flamboyance is out. But keep the charisma



SOMETIMES, they step down for an older man. Thus 45-year-old Jean-Marie Messier, boss of Vivendi, a French media conglomerate, kicked aside for 63-year-old Jean-René Fourtou, a senior executive at Aventis, a drug maker. And thus 49-year-old Thomas Middelhoff of Bertelsmann, a German media group, eased out for 60-year-old Gunter Thielen. Sometimes, their replacement is grey in a different sense. Take, from the American media industry this time, Jonathan Miller, the down-to-earth operations man who is taking over the role at AOL that dangerously exciting Bob Pittman once filled (see article). Or take Edward Breen, a safe pair of hands from Motorola who has stepped in to try to rescue Tyco International, now mired in various scandals including the alleged tax evasion of its extravagant boss, Dennis Kozlowski. Mr Breen's first move was to promise "corporate integrity and trustworthiness", qualities that every company should possess, of course, but not perhaps feel the need to boast about.

A changing of the guard is taking place in the corporate world, notably in those sectors most affected by the technology boom and bust. Chief executives who "got it", in the parlance of the late 1990s, are being replaced with folk who didn't get it, or who at least wear a tie but not a beard. An enthusiasm for good corporate governance has replaced vision as the most desirable characteristic for a new boss. Today's board of directors has come to share Lou Gerstner's famous sentiment, uttered back in 1993: "The last thing IBM needs now is a vision."

The reason for the change is not only—or even mainly—the ignominious procession of chief executives to court. More important is the abrupt change of mood in the markets, where fashion tends to determine the choice and behaviour of corporate bosses.

The market's demand for a rapid increase in earnings bred a generation of chief executives who focused on the short term, concentrating on the next quarter's earnings. One consequence emerges from a survey of senior financial executives by *CFO*, our sister magazine: 17% of all respondents report being pressured to misrepresent their results by their companies' bosses during the past five years. Another is the soaring cost of directors' liability insurance (see article). However, even honest bosses (and there are plenty of those too) learned how to craft appropriate strategies to provide the market with what it wanted. But that imposed tremendous strains. The market may think that a quarter is a long time, but anybody trying to change a corporate culture or to build a new business knows that it is the blink of an eye.

The taste for corporate honesty is a welcome novelty. Companies that give executives fairly modest stock options are now accounting for them as an expense (General Motors joined the rush this week), often seeing their share price rise as a result. But the suspicion of vision is less desirable. Creativity and charisma, coupled with a smidgen of ruthlessness, are necessary qualities for a successful boss. Good companies need to innovate and to take risks. A study recently published in *Management Science* finds that older chief executives and those with a legal background spend less on research and development than young techies.

So wise companies should choose bosses who are young (at least in mind) and honest, but with vision and flair too. There is an appropriate place for the grey, the cautious and the safe pair of hands. It is called the finance department.

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British foreign policy

Tony Blair is not a poodle

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The prime minister's willingness to use force in Iraq is based on national interest

Reuters

TO THE military dangers implicit in waging war against Iraq alongside the Americans, Tony Blair must now add growing political risk at home. Before the prime minister has even started to make the case for a military campaign against Saddam Hussein, opposition is mounting. In the past few days, the soon-to-be Archbishop of Canterbury, joined by a pew-full of bishops, has condemned the idea as immoral and illegal. Meanwhile, barely a fortnight into the summer recess, demands for the recall of Parliament are becoming louder.

The latest opinion poll suggests that a hardening majority is opposed to war with Iraq (by 52% to 34%). A convocation of retired generals (including a former chief of the defence staff) and a distinguished Tory foreign secretary (Lord Hurd) have expressed their unease. There is also considerable queasiness inside Mr Blair's own party. Within the European Union, one of Mr Blair's closest allies, the embattled German chancellor, Gerhard Schröder, has promised to stand aloof from American “adventurism”. Why, then, does the prime minister seem so unperturbed? It is because he has not the slightest doubt it is in Britain's national interest to support American efforts to topple Mr Hussein.

He is right, for two reasons. The first is a straightforward one. Mr Blair believes, as does this newspaper, that on balance it is worth fighting a war to rid the world of one of its most dangerous tyrants. He supports George Bush not, as his critics sneeringly insist, because he is the “president's poodle”, but because he agrees with him. The basis of the “special relationship” is that Britain and America tend to see most of the big things that go on in the world in much the same way. Mr Blair has no hesitation in saying that the war on terror is Britain's war too. In contrast, many continental Europeans, and not a few Britons, now seem to think that the war on terror was all along a bit exaggerated and has become just an excuse for America to throw its weight around.

This is the clearest difference between Mr Blair and his critics. They see the primacy of American power as a threat that must be constrained by the shackles of multilateralism and international law. He thinks that American power is fundamentally a force for good in the world, best engaged positively and treated with sympathy rather than suspicion. He also recognises that many of Britain's foreign-policy aims, such as progress towards peace in the Middle East, are contingent upon America's willingness to use that power—the EU, whatever its pretensions, is no substitute.

Influence, even at the margins, is preferable to the alternatives: impotent confrontation or passive acceptance of the world's wickedness. And Britain has had more influence on American policy than Mr Blair's critics want to believe—on the decision to put off attacking Iraq when the idea was first mooted late last year; on the effort that has gone into nation-building in Afghanistan, which America initially opposed; on Mr Bush's speech committing America to a Palestinian state.

How to be heard

The second reason why Mr Blair is right to support American efforts to topple Saddam Hussein is a more pragmatic one. Britain gets a more attentive hearing in the White House than does any other power, not so much because of ancient cultural and linguistic ties but because it is consistently willing to commit

highly capable (though, it must be said, too often ill-equipped) forces to violent action. Whether or not they add anything to America's overwhelming armed might, their political value far outweighs their military utility. That is especially true now that the going is getting a little rougher for the president and the wisdom of attacking Iraq is being questioned in Washington. Mr Blair knows that what he offers is of considerable value, which is why he is ready both to run those big political risks and to reverse (albeit still too modestly) the long post-cold war decline in defence spending. It is something that Mr Bush, for his part, might keep in mind.

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Letters

Aug 8th 2002
From The Economist print edition

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FAX: 020 7839 2968 E-MAIL: letters@economist.com

The case against war

SIR – Everything you say about Saddam Hussein is undeniable but surely the only justifiable reason for a pre-emptive attack by one country on another is dire and imminent threat ("The case for war", August 3rd). You also say that Mr Hussein's threat, however real, is not imminent ("Phoney war", August 3rd).

Nor is it clear why removing Mr Hussein is an essential part of America's declared war on terror. Iraq is not the only nasty regime to possess weapons of mass destruction. These weapons pose an intolerable threat in the hands of terrorists with no fixed address. Mr Hussein's address (like North Korea's) is known. A policy of containment must be preferable to the military option.

Let Mr Hussein, like his predecessors, be removed unmartyred, by his own people. To "abide by the rules" is not so much a pragmatic choice as a moral imperative because these rules underpin western values by which even a simplistic American president and an over-compliant British prime minister endlessly profess to govern.

Elon Salmon
Barnard Castle, County Durham

SIR – Your argument would make more sense in terms of military strategy and realpolitik, as well as in terms of equity and ethics, if one could assume that, before moving against Mr Hussein, firm steps were finally taken—with honest and consistent support from America—to resolve the Israeli-Palestinian conflict in line with successive and unambiguous UN resolutions.

Peter Koenz
Theillement, France

SIR – You argue convincingly that Mr Hussein is a monster and that he is about to become even more dangerous. Surely the people most in danger from this monster live close by in the Middle East. If America cannot persuade these neighbours of their danger in discreet diplomatic briefings why should individual European citizens—or editors—blindly trust America's (secret) analysis from afar? Given the record of its intelligence I am accepting no invitations to weddings in Afghanistan. What do you know that I do not?

Anthony Kenny
Grasse, France

SIR – Your leader on Mr Hussein was a wonderful expression of what we all know and won't say. Thank you.

Douglas Finney
London

All right in Mexico

SIR – You say of human rights in Mexico that "Mexico's government is taking quite a risk, then, in rolling out the red carpet for her [Mary Robinson's] three-day visit, which begins on July 1st" and that "Global

Exchange points out that many alleged assaults, rapes and killings have been carried out by the army, which probably has as many as 40,000 troops in each of the two most guerrilla-infested states, Chiapas and Guerrero" ("Mary Robinson comes calling", June 29th). This is misleading. Mary Robinson's visit was one among several by high-ranking UN human-rights officials invited by the Mexican government since 1998. Also, army troops in Chiapas and Guerrero number 15,640 and 7,894 respectively, around 40% of whom are logistical and administrative personnel (mainly carrying out community services). Far from representing a risk, Mrs Robinson's visit showed the government's strong commitment to the improvement of human rights in our country.

Alma Rosa Moreno
Mexican ambassador
London

Berlusconi too busy

SIR – Your article on Silvio Berlusconi, Italy's prime minister, contains a serious inaccuracy ("He's sitting pretty", July 20th). You aver that on July 11th Mr Berlusconi was not heard by the judges "mainly because of a visit to Italy by King Juan Carlos of Spain." Moreover, you underscore the fact that the meeting took place at 7.30pm, as if to suggest that the prime minister could easily have found the time during the day to attend the hearing.

This ignores the fact that previously Mr Berlusconi had chaired a meeting of his cabinet and had participated in a vote at the Senior Council of Magistrates. All these official duties had been listed for *The Economist*'s correspondent by the prime minister's office; but no trace of them appears in the article.

Paolo Bonaiuti
Spokesman of the prime minister
Rome

Editor's note: The prime minister's office told us that the king's visit was one of the reasons why Mr Berlusconi could not attend the judicial hearing. We doubted that explanation since the meeting with the king took place in the evening. So far as the other reasons for non-attendance are concerned, the judicial hearing had been scheduled well in advance, and the meetings cited in the spokesman's letter were routine.

Poland's reviving economy

SIR – You are right to point to Poland's high unemployment as the main challenge for our government ("Nice holiday, pity about the job", July 27th). But you draw so gloomy a picture that one could think Poland on the brink of collapse. It is true that most economic indicators are not encouraging, but so it is in most of Europe; Poland is not immune to global economic trends.

Yet despite adverse external conditions, the economy is not heading for the abyss. The government has stabilised public finances and continues structural reforms, including privatisation, to improve the environment in which Polish firms operate. Though modest this year, GDP growth is expected to exceed 3% in 2003. Despite worsening terms of trade and appreciation of our currency, the trade deficit is the same as last year.

The finance minister's new programme aims to revive the economy. It may raise criticism, especially of the idea of writing off the debt of some enterprises, but under present budgetary constraints that is the only way to enable firms to carry on operating through today's economic difficulties. Firms that restructure—but only they—will get tax incentives and reliefs. The entire process will be fully transparent and carefully monitored. To treat this programme as just a way of "buying time for the government" is completely unfounded.

As to our negotiations with the European Union, it is not true that they are "going badly". Poland is in the middle of the league of candidate countries. Of course, we are trying to get the best terms, and the negotiations, in their final phase, are tough. But to win a referendum on EU accession, the government has to convince the public that the conditions ultimately agreed really are the best we could negotiate. And, without that, Poland might lose its historic chance.

Stanislaw Komorowski
Polish ambassador
London

The art of driving

SIR – Is Michael Schumacher really a genius like Rembrandt ("Achtung, Schumacher", July 27th)? Rembrandt's work has been known for centuries; will Mr Schumacher be remembered in 400 years just because he drove a racing car and won a sports competition five or more times? Does anyone remember who were the best sportsmen in Rembrandt's times?

Herman Correa-Diaz
Billerica, Massachusetts

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About sponsorship

Muslims in Western Europe

Dim drums throbbing in the hills half heard

Aug 8th 2002
From The Economist print edition

Is there something about Islam that makes it impossible for Muslims to fit into western, liberal societies?

Get article background

AT THE end of the street stands the church, its steeple rising high above the roofs of the neighbouring terraces. The roads on either side are named after English county towns—Cambridge, Stafford, Warwick and so on—and in the pub on the corner of Warwick Street the pints are being pulled. Oh, to be in England. But this is not quite the England of Robert Browning; this is Oldham, a decaying cotton town just outside Manchester, where litter blows in the street, buddleia sprouts from the brickwork of the factories that made 19th-century Lancashire rich—and the children running into the building opposite the pub are Muslims arriving for their daily measure of Koranic instruction.

Similar scenes can be found in many towns in Western Europe these days. It is hardly a novelty to see women in saris, men wearing turbans, or signs written in strange scripts. Even the riots that erupted in a part of Oldham last summer seem a bit familiar: mass immigration has been a fact of life for West Europeans for several decades now, and so have its concomitant problems. What is new is not concern about immigrants in general but about Muslim immigrants in particular.

September 11th and Osama bin Laden's justification of violence in the name of Islam were enough to arouse all sorts of worries about the Muslim world, where theocracies flourish, women tend to be downtrodden, zealots chop off limbs for breaches of the law and adulterers may be stoned to death. That several of the perpetrators of the attacks on the twin towers had apparently lived for years in western countries raised further worries about the enclosed societies that seemed to exist within the West, societies in which hate could be preached and treachery plotted while all around non-Muslims remained utterly unaware.

Then, in May, came the Dutch general election and the bewildering success, until his murder, of Pim Fortuyn, the gay critic of the Netherlands' consensual political establishment. Part of Fortuyn's message was simply anti-immigration: the country was “full up”. But it was not only racists who responded to his views about Islam. It was, he said, a “backward religion”, intolerant of homosexuals and women's rights. This struck a chord well beyond the Netherlands, as may be judged by some remarks of Joschka Fischer, Germany's foreign minister, at the end of May. It was necessary, said Mr Fischer, whom no one would consider illiberal, to find out whether Islamic traditions and teachings were compatible with the values of modern western societies.

Up in Oldham, Riaz Ahmad could be forgiven for feeling a bit hurt. Having been elected mayor of this

town of 220,000 people, 11% of them Muslim, only three weeks earlier, he had just started to use his new position to bring people together. He considers the main problems of everyone in Oldham to be the scarcity of jobs and decent housing and all the other handicaps associated with poverty. These afflict immigrants even more severely than longer-established citizens.

The immigrants who arrived in Oldham in the 1970s and 1980s came to work in the textile industry, expecting to go home to the Indian subcontinent in due course. The Turks who went to Germany as "guest-workers" from the 1960s onwards, and the North Africans who went to France around the same time, all had similar reasons for leaving home, and similar hopes of returning. But, for most of them, the return has never happened. Meanwhile, they have failed to learn English (or German or French) very well and, to make matters worse, most of their original jobs have gone. Now, in Oldham at least, any work to be had is in offices or banks or dry cleaners, where a command of the language is far more important than in a textile mill. So Asians find it hard to get jobs, while their children, held back by poor English, often fare poorly at school. Some schools are over 90% Asian.

Mr Ahmad mentions other difficulties faced by Oldham's newcomers. Many grew up in rural areas in Bangladesh and Pakistan, a far cry from urban England, and they were unskilled. Moreover, some brought their feudalism with them, and also the loyalty to the clan associated with it. This means that today an extended family of up to 500 people may vote as one.

This kind of behaviour is not confined to Oldham: as many as 600,000 of the 2m or so people in Britain who originated in the Indian subcontinent came from just one region, Mirpur, in the Pakistani part of Kashmir. Like others from South Asia, Mirpuris congregate together, bring girls and boys to Britain to marry their sons and daughters in arranged (and occasionally forced) marriages and thus help to constitute the "parallel society"—the term is used in an official report into last year's riots—which exists in Oldham.

Such habits obviously make it harder for these communities to fit into British society as a whole—and Britain has been quicker than, say, France or Germany to come to terms with the idea of integration, whereby immigrants may keep the culture and religion of their homeland, rather than assimilation, whereby they are indistinguishable, except perhaps by colour, from the natives. In themselves, these habits have little to do with Islam. Yet some aspects of Islam do reinforce the isolation of Muslims in Western Europe.

Abroad at home, by satellite

The position of women is a case in point. Whether for cultural or for religious reasons, women tend to come a poor second to men in Islamic societies. After marriage, they often spend much of their time indoors, cut off from the sorts of activities that might bring them into contact with their non-Muslim neighbours. Another consequence, says Pierre Bédier—who, until he became a government minister in June, was mayor of Mantes-la-Jolie outside Paris—is that they spend much of their time watching television, and not just the standard diet devoured by most people in France. The television beamed into the homes of French Muslims comes from the Middle East or North Africa, with programmes that constantly dwell on the tribulations of the Palestinians and the "victimhood" of the Arabs in general. In the main square of Le Val Fourré, the Muslim quarter of Mantes-la-Jolie, where an electioneering President Jacques Chirac was spat upon by youths earlier this year, few women are to be seen, and in the café the people drinking mint tea are all men.

That is not to say that all women are subjugated. Far from it: Le Val Fourré's *hammam*—Turkish bath—is run by Fatima Jaadane, a successful *entrepreneuse* from Morocco, and several young women are serving beer in the recently opened nightclub nearby. Such behaviour would not go down well in Oldham, though. A few girls do go clubbing there, says Zaffer Ullah, a 28-year-old community worker, but they probably do not tell their parents, and many do not drink. He says he is "not religious"—he goes to the mosque once a week—but, unlike Oldham's whites, "We don't like to go to pubs."

Phil Woolas, a local MP, says Islam's ban on alcohol was a significant contributor, along with testosterone, to last year's riots. If you're an unemployed youth, with dim prospects, sharing a bedroom with five brothers and forbidden by your parents to go out with girls or have a drink, and along come some provocative white racists, you're tempted to take them on.

Most of Germany's Muslims are Turks, whose attitude to Islam is much more relaxed than that of Pakistanis. But in Germany, as in Turkey, some Muslims are becoming more devout, and even more are

choosing to assert their Muslim identity as a form of self-expression, a way of saying that they are not ashamed of their origins. Many women do this by wearing the headscarf, an act no more objectionable, you might think, than Sikhs wearing the turban or Jews the yarmulke, but one that is a constant reminder to those around them that they are not going to reject their background.

Cem Özdemir, one of only three members of the Bundestag of Turkish origin, sees no problem with this. So long as Muslims respect the German constitution, speak a bit of the language and accept the values of society—which are universal, he notes, not specifically Christian—their readiness to fit in should not be questioned. Yet he admits that Muslims have sometimes been responsible for attacks on gays and lesbians in Germany, to their dismay as well as injury, since homosexuals have often been in the forefront of campaigns against all kinds of discrimination.

Certainly, some Islamic practices seem jarring to Europeans. The ritual slaughter of tens of thousands of sheep at the annual feast known as Aid al-Adha draws a shocked response each year in France. Less upsetting but still awkward are Islamic burial requirements, some of which (the ban on coffins) conflict with public-health laws. Since exhumation is also strictly forbidden under Islam, and bodies must be buried as soon as possible, 90% of Germany's Muslims are flown home to be buried once they die. France has only one Muslim cemetery, at Bobigny, and Germany none, though land at Tempelhof in Berlin may yet be used. In Le Val Fourré, the bodies of older Muslims are also sent home, though the young are usually buried in the Catholic cemetery.

Such practices serve to perpetuate the links with the homeland. So does the reluctance of many states to grant citizenship to their immigrants, sometimes even to the children of immigrants born in Europe. But nothing perpetuates these links as worryingly as the Muslim organisations that exist in Europe and the mosques in which Europe's Muslims worship.

Once a Turk, always a Turk?

In Germany, for example, the biggest organisation for immigrants is DITIB, an arm of the Turkish government's office for religion. Turkey is a secular state, thoroughly hostile to fundamentalism, so DITIB is far from Islamist, but it does not do much for integration. On the contrary, since its main concern is the pursuit of Turkey's national interest, it encourages Turks in Germany to think of themselves as Turks. So do Turkish-language press and television. The German edition of the Turkish paper *Hurriyet* is, in Mr Özdemir's words, “more nationalist than the Turkish one”.

Only a small fraction of Germany's 3.2m Muslims belong to the country's 19 Islamist groups but, according to the authorities, they add up to nearly 32,000 people. The largest organisation, Milli Gorus, is linked to the main Islamist party (whose name changes according to the latest banning order) in Turkey. It does not preach violence, but its 27,500 members are likely to be taught that integration into western societies is treason under Islam. Other fundamentalists may belong to the Islamic Cultural Centres, a group headquartered in Cologne that operates in half a dozen other West European countries. Or they may, if they are brave, belong to the Caliphate State, banned last December, with 1,100 members in Germany.

Many Islamic organisations perform vital tasks neglected by others—for instance, helping immigrants to find housing or work (the unemployment rate among Berlin's 180,000 Turks is over 40%, compared with 17% among Berliners at large). But both the number and the structure of these groups make it difficult for outsiders, whether the government or Christian churches or others seeking to build bridges, to know whom to deal with.

This pattern, or rather absence of pattern, is mirrored in the mosques. Most in Berlin are organised on a national basis. Most do good work, organising programmes for women about health care or child welfare. They win praise for their anti-drug activities. But what is taught by their imams, both in the mosque and in the school (or *madrassa*) that is generally attached, is often unknown to outsiders.

It may be well known that venomous sermons are preached in the Finsbury Park Mosque in London by Abu Hamza al-Masri, a one-eyed sheikh with a special distaste for America. It may be that the Italian police have long known, as George Bush said last year, that the Islamic Cultural Institute in Milan harboured a terrorist cell. But for most people what goes on in Europe's mosques—which are usually flats or halls or garages, not the domed and minareted buildings of the Levant—is a matter for conjecture. That inevitably turns to suspicion when news breaks, as it did recently, that leading imams in Amsterdam, Rotterdam and The Hague had apparently been inciting their congregations to violence.

Europe's imams are usually sent and paid for by the governments of Muslim countries. Secular Turkey, through DITIB, sends imams and provides Islamic lessons for children in Germany. Morocco and Algeria do the same in France. In Le Val Fourré the mosque, a handsome affair by any standards, was built by Saudi Arabia, and for a while, until the French intelligence service “organised a change”, had a fundamentalist imam. Why do governments believe it their duty to provide mosques and imams in a foreign country? Perhaps to stop their expatriates falling prey to radicalism; perhaps because the distinction between church and state is never clear for theocratic Muslims.

A fear of extremism is not confined to non-Muslims. Ghoul Moulay, an imam in Marseilles, frankly expresses his fear of fundamentalists not just from Somalia or Yemen but also from Britain. Soheib Bencheikh, the grand mufti of Marseilles, says “Muslims must become immunised against outside radicalisation.” Like many others, they believe it essential that imams should be trained in Europe, not in the Middle East, the Maghreb or Pakistan.

But where will the money come from to build and run the necessary colleges? Secular, anti-clerical France is constitutionally forbidden to give state money to religions, though the long-established Christian churches and their Jewish counterparts receive tax benefits. Mr Bédier, the ex-mayor of Mantes-la-Jolie, thinks a solution could be found. First, government buildings could be rented out to Muslim groups for peppercorn sums. Second, a state school could be set up to train imams in Alsace-Lorraine, which was not a part of France when the crucial law on separation of church and state was enacted.

A similar effort is needed in Germany to promote suitable Islamic education in schools. The German constitution says all children have the right to religious education, and in *Länder* (states) such as North Rhine-Westphalia about half of all kindergartens are organised by the church, though they are 60% financed by the state. Jewish children receive teaching overseen by the Central Council of Jews, but the country's 3.2m Muslims receive no Islamic education from the state—leaving the field wide open to the unsupervised *madrassas*. In Germany, the Central Council of Muslims may fill the breach, and one institute to train teachers is getting going in Münster, but many more are needed. Spain lags even further behind, chiefly because the government is still searching for a Muslim authority with which to reach agreement.

The slow path ahead

Generalisations about Europe's Muslims need heavy qualification: their cultural and national backgrounds, which vary enormously, may play a bigger part in their ability to integrate than their religion. So may the culture and politics of the countries they now live in: all Commonwealth citizens enjoy the vote in Britain, for instance, which means that Muslims from Bangladesh, India, Pakistan and parts of Africa can vote in British elections as soon as they arrive. Their children, moreover, are British if they are born in Britain. In France and Germany, by contrast, citizenship has been granted only grudgingly.

One broad conclusion is clear. Pim Fortuyn was wrong: nothing in Islam makes it impossible for Muslims to fit into West European society, as the successful integration of many thousands already attests. In particular, he was wrong to think Islam was necessarily, and therefore immutably, intolerant. It is true that some Muslims are intolerant of homosexuality and treat women badly, but homosexuality was a crime in most western countries until recently, and women did not have full voting rights in Britain until 1929. In France they were not allowed to sign cheques until 1962. Given time, and effort on all sides, most Muslims will lose their censoriousness, as well as their insistence on marrying within their communities. And anyway, how many Catholics would still prefer their children to marry a Catholic rather than a Protestant?

AP

But integration is hindered both by cultural and, to some extent, by religious factors. The critical mass of the Muslim immigrant communities, which makes it easier for individuals to survive unintegrated, is a serious impediment, just as it is for Latinos in the United States. So, in one respect, is the strength of Islam as a religion. That strength brings several benefits. Muslims are generally good, law-abiding citizens. They tend to have strong family values. Their children who have gone through religious education often gain a self-confidence that helps them in their other school work. But Islam is a religion that is readily open to extremist distortion, as all religions are to some extent, and it is ill-equipped to impose restraint on its wilder

followers: 70% of the imams in France are self-proclaimed, laments Imam Moulay in Marseilles. If an association wants a fundamentalist, no one can stop it.

The lesson is that, if integration is the aim, everyone must work at it. In Britain, the most residentially segregated of all immigrant groups are the Bangladeshis, many of whom are crowded into a single borough, Tower Hamlets, in East London. The next-most-segregated are the Pakistanis, followed by the Indians, with the Caribbean population relatively well integrated. Indeed, Ceri Peach of Oxford University argues that the Caribbeans are following an “Irish”, assimilationist path, whereas the predominantly Muslim South Asians are following a “Jewish”, pluralist path in which they are economically integrated but socially encapsulated. It would be wrong to assume that what happens in Britain will necessarily happen elsewhere, just as it would be wrong to attribute the South Asian Muslims' lack of progress in society only to their religion. But it would be odd if Islam had nothing to do with it.

Two loyalties, too

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Prison and beyond

A stigma that never fades

Aug 8th 2002 | CHICAGO
From The Economist print edition

AP

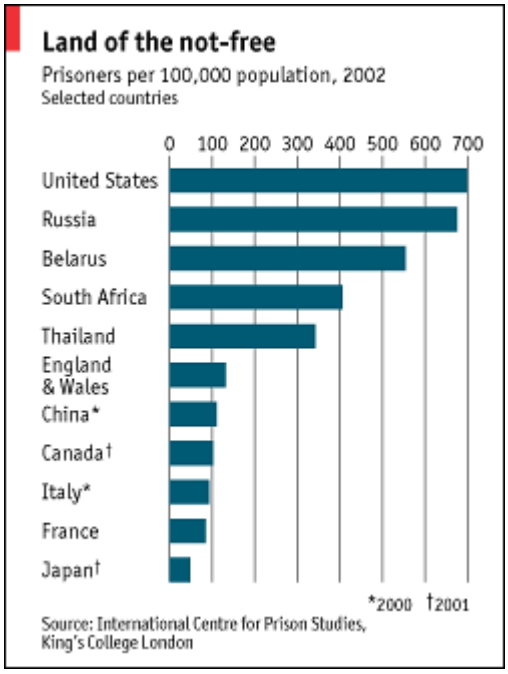
America may want to rethink a system that creates so many hardened criminals

Get article background

AT THE end of August, Mike, a 31-year-old Latino from Chicago's south side, will walk away from prison a free man. Again. This is his second long prison term for dealing in drugs and stealing cars; he has been in and out of jail a dozen times. He will be released into the same community where he has found trouble so many times before; he will attempt to reunite with his five children born to several different mothers. “Nothing really scares me about leaving,” says Mike. “It's just the thought of coming back.”

America's incarceration rate was roughly constant from 1925 to 1973, with an average of 110 people behind bars for every 100,000 residents. By 2000, however, the rate of incarceration in state and federal prisons had more than quadrupled, to 478. America has overtaken Russia as the world's most aggressive jailer. When local jails are included in the American tally, the United States locks up nearly 700 people per 100,000, compared with 102 for Canada, 132 for England and Wales, 85 for France and a paltry 48 in Japan. Roughly 2m Americans are currently behind bars, with some 4.5m on parole or on probation (the probationers are on suspended sentences). Another 3m Americans are ex-convicts who have served their sentences and are no longer under the control of the justice system.

Christopher Uggen and Melissa Thompson, sociologists at the University of Minnesota, and Jeff Manza, a sociologist at Northwestern University near Chicago, have done rough calculations suggesting that some 13m Americans—7% of the adult population and nearly 12% of the men—have been found guilty of a serious crime. Not all of these have been behind bars but, legally speaking, the felony conviction is the crucial distinction. American job applicants are asked whether they have been convicted of a felony, not whether they have served time. And the figures for some parts of the population are much higher than the overall averages. Roughly one in five black men has been incarcerated at some point in his life; one in three has been convicted of a felony.



How did it happen?

The imprisonment rate is tied to the crime rate. America has a high number of violent criminals, particularly those who use guns; America's homicide rate is five to seven times higher than the rate in most industrialised countries, according to Marc Mauer of the Sentencing Project in Washington, DC.

But America is also “tough on crime”. For similar offences, an American convict is more likely to go to prison and to draw a longer sentence than his European peer. America has taken a particularly punitive approach to its drugs problem. The incarceration rate for drug offences was 15 inmates per 100,000 adults in 1980; by 1996, it was 148 inmates per 100,000 adults.

This keenness to lock people up is matched by a complete lack of interest in them when they get out. Which they do—and faster than you might think. The average prison sentence is still only 28 months. Two-fifths of state prisoners will be released in the next 12 months.

The typical inmate goes into prison disadvantaged by almost every measure. He is more likely than other Americans to be poor and poorly educated, to have a sorry employment record, to be a junkie, to be mentally ill, and to be a member of a minority group. A survey of Californian inmates found that half were functionally illiterate. Prison could fix some of those social disadvantages; usually it does not. So the typical inmate is released from prison with all the problems he went in with—plus a prison record that makes finding a job or a place to live even harder.

When inmates walk away from a state prison in Illinois, they are given $10, a set of street clothes and a one-way bus or train ticket to some approved destination. They leave the structured environment of prison, in which they are at least guaranteed a bed, meals and basic health care, and return to a world full of temptations, often to the very neighbourhood in which they first fell foul of the law.

Charles, a boyish-looking 25-year-old who has spent three-and-a-half years in prison for guns and drugs offences, will be released this year. He worries both about his old friends, who have not mended their ways, and his old enemies, who may still have scores to settle. “There's people who left here and got killed the first day,” he says.

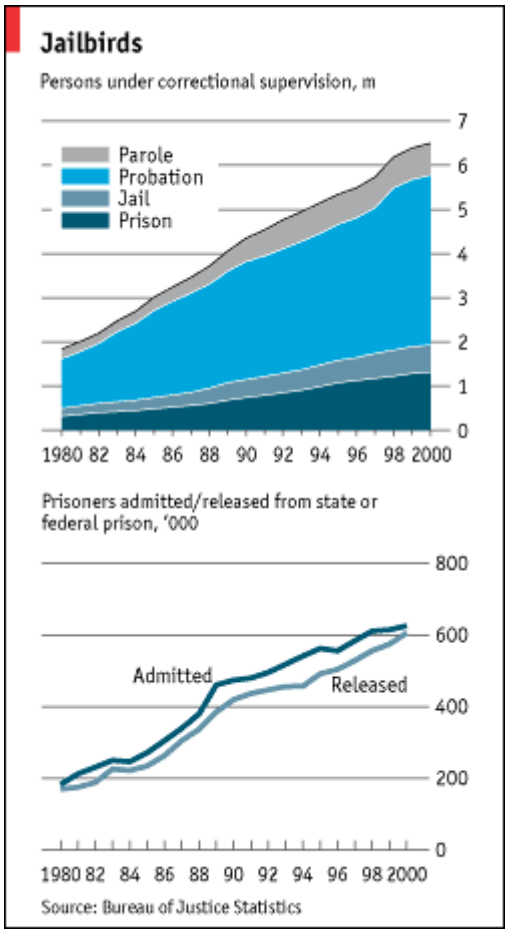
A survey of employers in five large cities found that 65% would not knowingly hire an ex-convict. Many would not be allowed to do so legally anyway. Another facet of the “tough on crime” movement has been to exclude ex-convicts from certain kinds of employment. In Illinois, ex-felons are banned from some 57 different professions, including such jobs as manicurist and barber, says Diane Williams, president of Chicago's Safer Foundation, a non-profit organisation that helps ex-offenders.

Ex-convicts, whose families are often less than enthusiastic about their return, can also be excluded from public housing. Three-quarters of inmates leaving prison have been on drugs; one in five has a mental illness. It should be no surprise that ex-inmates have high rates of unemployment and homelessness.

Doing time

The sentencing laws also skew the system in another way. Sentences used to be indeterminate: a man might get five to 20 years, with a parole board deciding when he was to be released. In the mid-1970s, three in four American prisoners were released only after appearing before a parole board. This process annoyed both left-wingers, who complained that it was racially biased, and conservatives, who objected to letting prisoners out "early". Now only 30% of prisoners appear before parole boards; the rest are released when they have done their time, whether they are prepared for life outside or not.

Of course, most of these people are released conditionally, usually for a period of parole in which they must live by certain rules (such as staying off drugs). But nowadays a typical parole officer may be responsible for 50% more people on parole than he was in the 1970s. Methods of broad surveillance, such as drug testing, have replaced more personal support and supervision. An ex-offender may have only a few short meetings with his parole officer each month. "The philosophy of the parole unit has changed," says Jerry Butler, who joined the Safer Foundation after 31 years in the Illinois Department of Corrections. "Now they all have cars, guns, bullet-proof vests and badges."



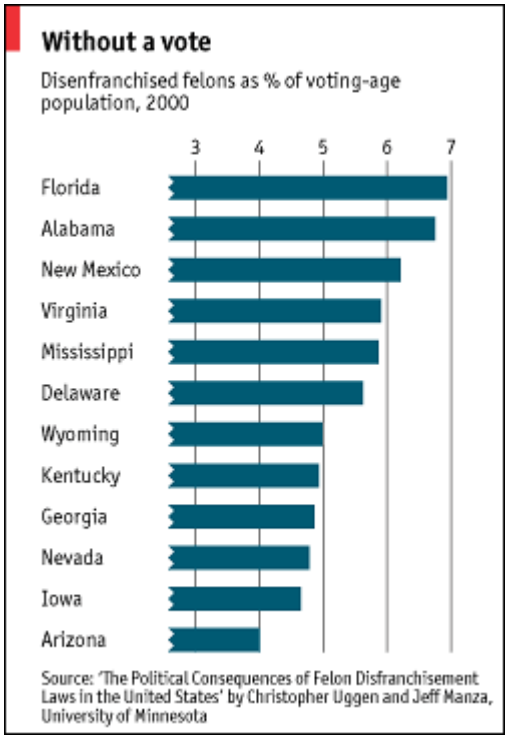
Unsurprisingly, more inmates are failing their first big test outside prison. In 1985, 70% of people on parole successfully completed their term; by 1999, only 42% did. Those who break their parole now account for a third of prison admissions, the fastest-growing category.

Altogether, roughly two-thirds of released prisoners are rearrested within three years of release; 40% are already back in prison in that time. And those are just the ones who get caught. "If you return the guy to the community with $10 and a suit of clothes and no support systems, you can just about guarantee that that person is going to resort to some kind of criminal behaviour," says Mr Butler. And the crimes the ex-inmate commits could well be nasty ones: one in four prisoners is a violent offender.

The effect of all these ex-prisoners is beginning to be felt. Inevitably, it is disproportionately large in certain areas. A study of Cleveland, Ohio, for example, found that 3% of the city's neighbourhoods were home to 20% of the state's ex-prisoners.

"They come back with their own baggage," says Jeffrey Fagan, a professor of law and public health at Columbia University. They also come back dangerously ill in many cases. In 1997, a quarter of the people living with HIV or AIDS in the United States had come out of prison that year. The numbers are even higher for hepatitis C and tuberculosis. When a resistant form of TB hit New York city in the late 1980s, 80% of cases were traced to prisons.

America's huge criminal class also has profound political implications. Most states limit the voting rights of felons and ex-felons. As a result, 4.7m Americans, or 2.3% of the voting population, have lost their rights. The figure is nearly 7% in Alabama. One in six black men cannot vote in Virginia and Kentucky. This causes alienation, and changes elections. Felons may not be enthusiastic voters, but they vote overwhelmingly for Democrats. Messrs Uggen and Manza have calculated that if felons had been able to vote in Florida, Al Gore would be president.



In praise of rehab

The notion of rehabilitating prisoners went out of vogue in the 1970s, when research seemed to show that prison programmes had no effect on recidivism. New research suggests the opposite.

For example, a study of residential drug treatment within federal prisons showed that inmates who completed the programme were 73% less likely to be rearrested than those who had not completed it. Such programmes are being curtailed just as research is beginning to show they work. In 1991, one in four state-prison inmates received treatment for drug addiction; by 1997 it was one in ten. Prison-based job-education programmes have also been shown to reduce recidivism, but fewer prisoners than before now take part in them.

Jeremy Travis, a senior fellow at the Urban Institute, proposes an improved version of the old parole board in which an offender's “re-entry management” would be assigned to the judge who sentenced him to prison in the first place. The judge would oversee a plan that would include paying restitution to the victim. He would monitor the offender's participation in relevant programmes and punish failure. Drug treatment inside prison could be linked to post-prison treatment outside. Similarly, job training in prison might be co-ordinated with work after release.

Mike and Charles are relatively lucky, as prisoners go. They are finishing their prison terms at the Crossroads Community Correctional Centre, a “transitional facility” operated by the Safer Foundation for the state of Illinois. They are enrolled in an intensive drug-treatment programme, taught about matters such as parenting and given housing assistance before release. Mike leaves the facility by day to work at a bakery; Charles works at a fast-food restaurant. Both are required to save a portion of their wages.

Will it make any difference? “There is no guarantee,” admits Mr Butler. Would-be helpers face a stunning paucity of data on what distinguishes successful ex-prisoners, but offenders who have been through the Safer Foundation are 40% less likely to be rearrested.

There are two straws to grasp. First, politicians are beginning to notice the problem. The Justice Department has recently allocated $100m in grants to help prisoners on release—a start, though not much against the $54 billion a year that America spends on its whole prison system.

Second, a few Americans are beginning to reconsider the war on drugs. A 1997 RAND study concluded that spending money to reduce drug consumption through treatment rather than incarceration would reduce serious crime 15 times more effectively. In November 2000, California's voters passed Proposition 36, which sends first- and second-time non-violent drug offenders to treatment rather than prison.

Conwanis, a 26-year-old black man with two children, will leave prison in October after serving a three-year sentence for drug and guns offences. He failed to graduate from high school, and he also failed a

high-school equivalency exam in prison that would have earned him a diploma. But he is clean of drugs (with tests to prove it) and he has been working 12-hour shifts in a transitional job at a Country Kitchen restaurant. “I can't continue to come in and out of jail,” he says. It would be better for everyone if he made something more of his life this time.

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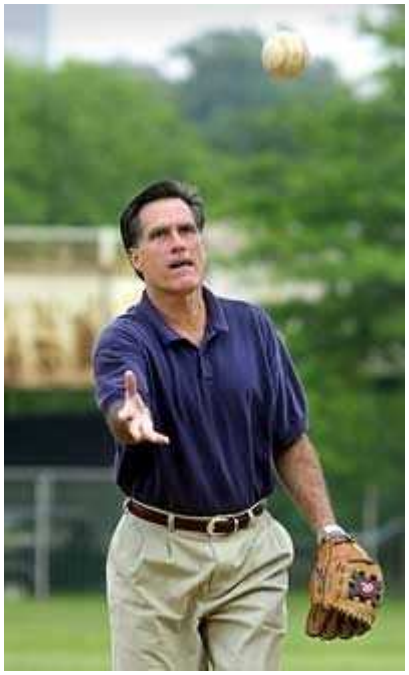
Would-be governors (1)

The talented Mr Romney

Aug 8th 2002 | BOSTON
From The Economist print edition

His main skill: having so little in common with his state

AP



About to catch the prize

MITT ROMNEY does not seem like someone from Massachusetts. There's something too friendly about his demeanour; his good looks are too midwestern-bland; and, dammit, he claims never to swear. But since he entered the governor's race this spring, the Michigan-reared Republican—who has lived outside Boston for three decades—has floated comfortably ahead of his four Democratic opponents, like a favoured native son.

This is a source of chagrin for the state's Democrats, who desperately want to win back the governor's seat after 12 years of Republican rule. In June they launched a half-hearted effort to knock Mr Romney out of the race, on the grounds that, technically, he was not a state resident. The Massachusetts constitution, written just after the colonists had thrown off the British yoke, requires a governor to have lived in the state for seven consecutive years. But Mr Romney had filed three years of tax returns as a resident of Utah, where he ran the Winter Olympics, and toyed with a run for office there.

Mr Romney looked defensive for several days as lawyers thrashed out his case before a state election board. He made some feeble excuses that turned out to be untrue, and blamed election clerks in Utah for his troubles. (He also came across as unfathomably rich, saying he hadn't noticed that he got a $54,000 tax break for listing his Utah house as his primary residence.) Still, the election board ruled that he could stay on the ballot, since he planned to return to Massachusetts.

Voters seem to agree. Recent opinion polls suggest that all this just made the Democrats look petty. The latest poll shows Mr Romney far ahead of his Democratic rivals, leading the front-runner, the state treasurer, Shannon O'Brien, by 14 points and Robert Reich, her closest rival and a former secretary of labour in Washington, by 21 points. He is far ahead in fund-raising, too. Even the fact that he is a self-confessed chief executive seems to do him no harm.

There has always been an air of inevitability about Mr Romney's campaign. This is why Jane Swift, the Republican acting governor, chose to drop out of the race rather than face him in a primary. But what makes him so beloved is not clear. He has never won elected office. He was trounced in his 1994 bid for the Senate by Ted Kennedy (now there's a proper Massachusetts pol for you), who painted him as an uncaring venture capitalist. And lately his ambitions have left him vulnerable. Since Utah is far more conservative than Massachusetts, Mr Romney has switched his position on abortion several times, depending on which state he was talking to.

The Democrats hope that things will change when they pare down their dangerously crowded field (which also includes the president of the state Senate, Thomas Birmingham, and one other candidate). They also think that, when voters pay closer attention, they will recall Mr Romney's stumbles. Their latest ruse is guilt by association, suggesting that the firm Mr Romney created, Bain Capital, was complicit in the corporate culture that led to the Enron and WorldCom debacles.

So far, none of it is working. Voters seem to enjoy Mr Romney's campaign gimmicks, such as his plan to join real people for a few hours of real work. Already Mr Romney has gutted fish, sold sausages outside a baseball game, and ridden on the back of a garbage truck. If it looks shallow, no one seems to mind. His

latest ad, showing him strutting around in his Olympic jacket, has gone down well.

The explanation of Romneyphilia may be that it is really just the flip side of Massaphobia. Voters are furious about their state's giant budget shortfall, its faltering economy, a deadlocked Democratic legislature, the Big Dig (a disastrous attempt to build new roads in Boston) and the antics of Queen Jane, as Ms Swift is known. An outsider, fresh from the feel-good Olympics, seems the perfect antidote. Massachusetts voters want someone who's not like them at all.

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Would-be governors (2)

Does Simon mean business?

Aug 8th 2002 | SAN FRANCISCO
From The Economist print edition

Yes, and alas not entirely the wholesome sort

AP

Please don't hit me again

"FRAUD" is not the first word an aspiring politician wishes to have linked to his name. Today, with everyone from George Bush down scrambling to denounce corporate corruption and reel in white-collar criminals, it is positively deadly. Bill Simon, the Republican candidate in November's election for governor of California, was last week slapped with this lethal label by a jury in Los Angeles. His campaign, which was already unsteady, is tottering.

Like much of what has befallen this political novice, the setback is both unlucky and not entirely fair. Mr Simon himself has not been found guilty of any wrongdoing. The fraud verdict—plus a $78m bill for damages—was delivered against an investment firm started by Mr Simon, along with his brother and their late father, and concerned a deal in which Mr Simon had no involvement. But Mr Simon's opponent, Gray Davis, is a black belt in the political art of knocking down a staggering opponent, and his campaign staff pounced on the verdict. They particularly relish the fact that the beneficiary of the damages, a former business partner in the Simons' family firm, was a man with two hefty convictions for drug-smuggling.

Until recently, Mr Simon's business experience was touted as his greatest advantage. Up against a lifelong politician, and one whose popularity had plummeted as a result of California's power crisis and its financial fallout, Mr Simon could present himself as an antidote to government mismanagement. The change in national mood has come at a bad time for him. But Mr Simon has repeatedly compounded bad luck with bad judgment.

The week before the jury's decision, Mr Simon's campaign—which is now on its fourth staff reorganisation—was floundering in a mess of its own making over his tax records. Since most of his income comes from investments he shares with his brother and sisters, Mr Simon had argued for months that the political ritual of making his tax returns public would intrude on their privacy. In the experienced hands of Mr Davis's spinners, the explanation was soon remoulded to look like an excuse, which had to mean there was something to hide.

The records, when eventually released after months of prevarication, revealed no sordid secrets. On the contrary, they showed that Mr Simon had paid a rather higher share of tax than many rich people. This late exoneration was spoiled, however, by further bungling on the part of Mr Simon's campaign, which at first imposed such tight restrictions on reporters examining the records that, though it later relaxed them, it confirmed the impression—reinforced by the ever-vigilant Davis campaign—that there was something in these papers worth concealing.

Mr Davis has good reason to try to focus attention on his opponent. Whenever Californians start to think about their governor, they feel irritated. Besides the power crisis and the budget deficit, they distrust Mr Davis's thirst for campaign contributions. Both trade unions and big businesses such as the timber industry (long a better friend of Republicans than Democrats), have contributed heavily to his campaign. He now has five times as much cash on hand as Mr Simon, and several contributors have benefited from his decisions as governor.

The fuss over Mr Simon's tax returns has also sidelined questions about a recent deal by Mr Davis over

the 1998 settlement with tobacco firms. Rather than collecting California's full $12.5 billion share of the settlement, paid out over time, he agreed to take a lump sum of $4.5 billion up-front. The choice helps Mr Davis with his urgent political problem of a $24 billion state-budget deficit, but is a lamentable deal for California.

Mr Simon and his fellow financier-turned-politician, Peter Camejo, the Green Party candidate, are trying to make questions like that—and others about California's roads, schools and hospitals—the core of the election debate. If only Mr Simon were not such a juicy subject himself.

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The West Nile virus

Mother Nature's biological warfare

Aug 8th 2002 | WASHINGTON, DC
From The Economist print edition

Getting as far as the White House lawn

AMERICANS had almost forgotten that nature can spread disease as efficiently as any bioterrorist. They remembered, with a gulp, when a recent addition to America's disease lexicon, the West Nile virus, reared its head again in mid-June. About a month ahead of its usual season, West Nile has already caused five deaths in Louisiana and made more than 100 people ill, including quite a few youngsters. This year's outbreak is already the worst since the virus appeared in New York city in 1999.

West Nile virus was first identified in Uganda in 1937, and is endemic in the Middle East, Africa and parts of Europe. It was probably brought to America by an imported bird that had been bitten by mosquitoes, which then infected other animals and people.

The virus does not usually affect humans. Only one in five people who are infected develop symptoms, and only one in 150 of those become severely ill or die from the brain inflammation that is its worst result. Experts say they expected West Nile to spread across the country as it has done, from only a few north-eastern states in 1999 to 34 states and Washington, DC, so far this year. It would take a brisk set of bioterrorists to move germs this efficiently.

Three weeks ago, an infected bird was found as close to power as the White House lawn. It is fortunate, therefore, that the systems set up to manage bioterrorism will also prove useful in handling West Nile. Public health departments and hospitals are now communicating much more often and with better technology than before September 11th and last year's anthrax attacks. Health officials in some cities can now see when emergency rooms are becoming overcrowded. Chicago's hospitals are sharing information on the availability of beds, respirators and other equipment. Medical emergency teams will sometimes also respond to severe disease outbreaks that are not part of a war.

The bioterror systems will be used to monitor the West Nile virus. Most states east of the Mississippi have also been spraying and treating standing water to destroy adult mosquitoes and their larvae. Still, health officials expect many more human cases of the disease as the summer progresses. With luck, its impact will be limited. One survivor said he found his illness easier to cope with than watching his baseball team blow ninth-inning leads.

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Foreign policy

Friend or foe?

Aug 8th 2002 | WASHINGTON, DC
From The Economist print edition

Unusually strong sauce for the Saudis

THE United States has treated Saudi Arabia with kid gloves since September 11th. Fifteen of the 19 hijackers were Saudi citizens. The Saudis refused to allow their bases to be used for strikes on Afghanistan, and offered only grudging support in tracking down the terrorists' cash. On August 7th, the Saudi foreign minister publicly confirmed that his country would not allow America to use it to attack Iraq. Around the world, Saudi money is financing the spread of a highly intolerant strain of Islam, Wahhabism. Yet the American government continues to describe Saudi Arabia as a valued ally.

Are the gloves about to come off? A briefing paper presented to the Pentagon's Defence Policy Board on July 10th (and leaked to the *Washington Post*) was as critical of the country as it is possible to get. It described Saudi Arabia as an enemy of the United States—"the kernel of evil, the prime mover, the most dangerous opponent" in the Middle East. "The Saudis are active at every level of the terror chain," it argued, "from planners to financiers, from cadre to foot-soldier, from ideologist to cheerleader." It recommended that American officials give the House of Saud an ultimatum: stop backing terrorism, or face a seizure of your oilfields and your financial assets in America.

The administration quickly distanced itself from the report. Donald Rumsfeld, the secretary of defence, said it did not represent official thinking. Colin Powell, the secretary of state, said the same in a mollifying call to the Saudi foreign minister.

The Defence Policy Board does not consist of people in office. It is a group of outside advisers, including an ex-secretary of state, Henry Kissinger, a former vice-president, Dan Quayle, and several retired military folk. The report's author, Laurent Murawiec of the RAND organisation, was an outside adviser to these outside advisers.

The report was strikingly short on detail, such as how America might go about "targeting" a sovereign country's oilfields and overseas financial assets. It will take more than a collection of "musings" to change America's relationship with a country that has been the cornerstone of its policy in the region for the past 60 years, and which controls about a quarter of the world's oil reserves.

Nevertheless, the report reflects a shift of mood in Washington which is not related solely to Saudi Arabia's perceived failings in the war on terror. America's new-found friendship with energy-rich Russia, and the possibility of a friendlier post-Hussein regime in Iraq, raise hopes that Saudi Arabia will one day lose its position as the swing-producer in world oil markets. Yet another discussion document submitted to the Pentagon is said to argue that it would be in America's interest to encourage the break-up of Saudi Arabia, in particular the secession of the Shia-populated, oil-rich eastern provinces. Obviously, this is not official policy either, but it is the sort of argument that is gaining ground in conservative circles.

Conservatives hold influential positions in both the vice-president's office and on Donald Rumsfeld's civilian staff. Richard Perle, the head of the advisory board, has helped to shape much of the administration's policy, particularly on Iraq. It is notable that Mr Rumsfeld's criticism of the report did not include the normal expressions of support for Washington's old ally.

The chances of America seizing Saudi Arabia's oil and confiscating its assets are slim. But there are clearly some people in Washington who would like to show the House of Saud that it cannot always take America's support for granted.

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The demon drink

All Stars, no bars

Aug 8th 2002 | STAR CITY
From The Economist print edition

Sobriety in deepest Arkansas

THE last time Star City served whiskey legally, Betty Grable was a sex-symbol and Rosie the Riveter was recruiting women to help the war effort. Shortly after the end of the second world war, Star City ended its fling with the demon drink and banned sales of liquor, turning the place dry.

Times changed only last year, when Jamie Lindsey, a restaurateur, petitioned the Arkansas Alcoholic Beverage Control (AABC) for a permit to serve liquor in his private club and restaurant five hours a night, four nights a week. Lincoln County is one of only 11 in Arkansas with no permits to sell alcohol. The board granted Mr Lindsey's request, but the news has appalled his neighbours.

Star City is a sleepy town in the south-east of the state, with 2,471 people and 14 churches. Old-timers say a person can stand at one end of the county, throw a stick to the other end, and hit nothing—except some poor booze hound driving to the county line to buy a six-pack of beer. On the outskirts of town a religious sect has set up a country village with a fancy steak house, a jewellery store to rival those on Rodeo Drive and a bakery that makes home-made bread and jam. The village attracts shoppers from around Arkansas. But as far as commerce and industry go, that's it.

The town is not as pristine as you might suppose. It has several discount smoke shops selling cheap cigars and cigarettes. Lincoln County also comes first in Arkansas for illegal methamphetamine production, with mobile laboratories popping up in trailers and shanties. But forget the dangers of tobacco and crack; it's firewater that has the townsfolk uniting and praying.

In Arkansas, 43 out of the 75 counties are dry. Counties and towns can prohibit the sale of liquor if 38% of registered voters sign a petition against it. Mr Lindsey squeaked through because a state law from 1969 says a county can have at least one private club.

The good citizens of Star City have now launched a campaign against Mr Lindsey and his not-yet-open restaurant, Amy's Place. They whisper that it's no better than the illegal shacks that dot the woodlands around the hamlet, serving Mad Dog 20/20 at all hours of the night and day. Church, police and business leaders have set up the Lincoln County Stars—the Sobriety, Temperance and Alcohol Reform Society—and have gathered more than 700 signatures on a petition to the AABC. They are planning to appeal against the permit, too.

The likelihood, however, is that Mr Lindsey will win the day. And, as time goes on, residents of Star City will probably learn the first lesson of living with alcohol: after you run into your neighbour at Amy's Place, keep it to yourself when you see him in church on Sunday.

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Lexington

Blame Robert Rubin

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From The Economist print edition

But Republicans do so at their own risk

HE IS becoming the Republicans' voodoo doll, with party members happily sticking pins in his effigy to harm Democrats and ward off evil spirits. This may seem a bit odd, considering that Robert Rubin, as treasury secretary, teamed up with congressional Republicans to impress fiscal discipline on a reluctant Bill Clinton. But there it is: the carefree 1990s have recently become the “Greenspan-Rubin bubble” in some conservative circles. And the Republican National Committee accuses Mr Rubin of personal and culpable involvement in the Enron debacle.

His detractors point out that, after leaving the Treasury in 1999, Mr Rubin became a director of Citigroup, the energy trader's biggest creditor. Citigroup, they say, invented dubious offshore schemes that enabled Enron to hide its debts, distort its creditworthiness and inflate its share price. Then, with Enron on the verge of bankruptcy, Mr Rubin called his former department and asked whether it might lean on credit-rating agencies to persuade them not to downgrade Enron yet. In other words, having ignored the seething cauldron while he was a public servant, Mr Rubin attempted, once back in private business, to trade on his connections when the whole thing boiled over.

For the record, Citigroup says the offshore schemes were legal. And Mr Rubin has said that he had an obligation to make the call because, at that moment, he thought Enron might be saved by a merger. Whatever the truth, though, there is a wider political imperative at work. Mr Rubin has become synonymous with the Clinton administration's economic policies. The economy has gone sour. The Bush administration is getting the blame (wrongly, in some ways). It wants to shift that blame. It is doing so partly by attacking Mr Rubin. And if there are some shady-looking deals in his business record, so much the better.

There are, though, two problems. First, in attacking Mr Rubin's record in office, Republicans are throwing boomerangs. Second, they risk worsening an already fractious relationship between the administration and Wall Street.

Many of the current economic problems do indeed go back to the excesses of the 1990s, notably the failure to act on abuses of corporate governance. To that extent, the Clinton administration deserves blame, along with credit for the successes. But the Bush administration still deserves censure for having taken so little account of the economic changes since it came to office. Moreover, broadside attacks condemn not only the bad results of Mr Rubin's stewardship but also the good ones—the longest boom of the post-1945 years, the thousands of new jobs—and the policies that made them possible, such as fiscal discipline and open trade. At a time when Mr Bush is presiding over a plunge in the public finances and

when his record on trade is (to put it politely) mixed, this looks reckless.

Just as important, the attacks on Mr Rubin unnecessarily widen a breach with Wall Street. Relations between the Bush administration and New York's Masters of the Universe are poor in any case. Mr Bush's grandfather may have run a blue-blooded investment bank, Brown Brothers Harriman. His father may have shuttled smoothly between Texas oilmen and WASP financiers. But Mr Bush himself seems more at home in the OK Corral than in the canyons of lower Manhattan. It was all too appropriate (if probably unconnected) that, when he went to Wall Street to reassure nervous investors on July 9th, the Dow fell nearly 500 points in two days.

Wall Street's investment bankers react to the administration with equal suspicion. Whatever one thinks of Mr Bush's tax cuts, the manner in which they were implemented—notably the pretence they would cost only $1.35 trillion over ten years—got a Bronx cheer. Markets abhor uncertainty, and no one on Wall Street believes any of the ten-year fiscal projections.

Careless talk costs credibility

This last point—the markets' hatred of uncertainty—points to the real problem with attacking Mr Rubin. The former treasury secretary, who also used to be an arbitrageur, embodies a policy of paying attention to what markets think and how they react. That is almost the opposite of the Bush administration's insouciance. By attacking him, the administration is drawing attention to its own failures of economic leadership.

The Rubin team thought their man's words were pure gold, and agonised over how they would be received. As a result, Mr Rubin spoke little and cautiously. When he broke that rule—as during the near-meltdown that accompanied Russia's default in 1998—people listened. In contrast, Paul O'Neill, Mr Bush's non-Wall Street treasury secretary, seems to think his own words have no importance. He recently expressed surprise that anyone should care what he said, and he tends to shoot his mouth off. (“We are not pursuing...a policy of a strong dollar.”)

The contrast between the two is most striking in their attitude to international financial markets. Mr Rubin, sworn into office at the time of the Mexican bail-out, spent many of his hours at the Treasury dealing with Latin America, Asia and Russia. The Bush administration appears to believe it has no role to play in stabilising world markets: witness Mr O'Neill's recent warning that Brazil and Argentina would have to get the right policies in place so that “as assistance money comes, it doesn't just go out of the country to Swiss bank accounts.” Remarks like this are incendiary, unnecessary and even misleading, since the administration is in fact prepared to bail out struggling countries when it needs to—as it has just done in Uruguay.

Administrations cannot legislate an economic recovery or cheer-lead markets. All they can do is to reassure the country and the markets that they know what they are doing and are paying attention to what is going on. This is something Mr Rubin knew how to communicate. As well as criticising him, Republicans might also quietly take a leaf from his book.

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Latin America's economies

Lifelines for Brazil and Uruguay

Aug 8th 2002 | SAO PAULO
From The Economist print edition

AP

The IMF and the United States have stepped in to stave off financial meltdown. But big challenges lie ahead

Get article background

IN RECENT months, as the ripples from Argentina's economic collapse spread to its neighbours, policymakers in South America have been exasperated by the rich world's apparent indifference to the region's collapsing currencies and sagging financial confidence. Yet this week, suddenly, all that changed. On August 7th the IMF announced a huge new loan to Brazil, of $30 billion over 15 months. Days earlier, the United States' government had granted Uruguay a $1.5 billion emergency loan to keep its banks afloat.

The IMF loan to Brazil was not entirely unexpected. South America's largest economy has stuck rigorously to the terms of its agreements with the Fund since 1999. Even so, the value of its bonds and its currency, the *real*, have plunged in recent months. Investors have been worried about the uncertain outcome of a presidential election in October and about whether the new government might follow Argentina's example and default on its public debt.

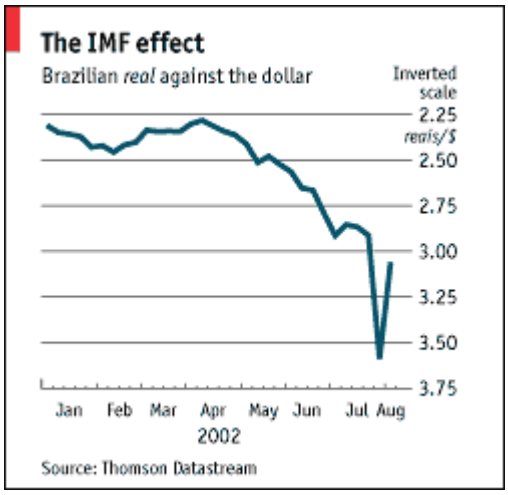
But two things were surprising about the new loan. The first was its size, ranking with the IMF's assistance to Asian countries in 1997-98. The Fund evidently calculated that a big loan was necessary to steady the currency, and thus help to stabilise the public debt until well into next year. The second surprise was that the loan and its conditions have been agreed to without the explicit endorsement of Brazil's leading presidential candidates.

Taken together, the bail-outs sent a clear message—underlined by Paul O'Neill, the United States' treasury secretary, on a visit to the region this week. Countries such as Brazil and Uruguay, which are seen to be victims of financial contagion from Argentina but to have sound economic policies, can expect support.

That is something of a reversal, for Mr O'Neill, at any rate. He is well known for his aversion to bail-outs of emerging-market economies, which he sees as encouraging irresponsibility by investors and governments alike. Only days before his trip, he had implied that further aid would be wasted. But Mr O'Neill was apparently overruled by the White House, which has grown worried by the impact of a Brazilian debt default on the world economy and on Latin America's struggling democracies.

Will the new strategy work? Brazil's new IMF agreement is aimed at steadying the *real* during and beyond the election campaign. Although only $6 billion of the new money will be available this year, Brazil's central bank will now have more flexibility. The agreement cuts to $5 billion (from $15 billion) the minimum level of reserves it promises to hold; in effect, it has an extra $16 billion to throw at the currency this year. A steady *real* would in turn help calm fears over the public debt. Although three-quarters of Brazil's public debt is in local currency, around a third of this is indexed to the exchange rate. And by banishing residual fears that Brazil could face a shortfall in external financing this year, the agreement might help Brazilian firms to keep foreign credit lines open.

News of the loan boosted the *real* and Brazil's bonds. But the big test will come if the election is won by either of the two left-of-centre candidates, Luiz Inacio Lula da Silva and Ciro Gomes. They lead the opinion polls. Investors still distrust them, though both have dropped their earlier radical talk. Neither made any instant comment. But they are likely to accept the deal. Although it reaffirms the current restrictive fiscal policy—the agreement keeps the target of a primary fiscal surplus (that is, before interest payments) of 3¾% of GDP—it does not tighten it any further.



The bigger question is whether Brazil can return to robust economic growth after a lacklustre year. A growing economy and lower interest rates would quickly make the public debt manageable. But the high taxes and fiscal surpluses required to service the debt weigh on the economy. So growth depends crucially on investor confidence in the new government.

Uruguay faces a similarly tough haul. Last week the country once seen as Latin America's Switzerland, because of its flourishing banks and commercial tranquillity, edged towards chaos. The banks shut for four days, after a run on deposits had almost exhausted the country's foreign-exchange reserves. Shops in the capital, Montevideo, were looted. The IMF had indicated that it would lend more only if Uruguay imposed an Argentine-style freeze on all bank deposits.

Uruguayan officials hurriedly devised a more flexible alternative, which distinguishes between sound banks (which will operate normally) and unsound ones (some of whose fixed-term deposits are frozen until rescue measures are taken). This won the support of White House officials. George Bush ordered the American Treasury to make a bridging loan, to be repaid once a new $3.8 billion bundle of loans for Uruguay tied together by the IMF is ready, perhaps in a matter of days. This allowed the banks to reopen this week. But as in Brazil, Uruguay faces a daunting battle to steady its currency and service its public debt against a background of recession (now in its fourth year) and popular demands to stimulate the economy.

Brazil and Uruguay have gained a respite, though pessimists will say that this will merely allow investors there to exit at a better price. Argentina is no nearer to sorting out its own impasse. Mr O'Neill said in Buenos Aires that he hoped that its talks with the IMF will now speed up. The Bush administration finally appears to have become alarmed by the havoc that Argentina's collapse has caused. Nonetheless, if economic growth fails to return to South America soon, the bail-outs may prove to be yet another lost bet.

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Politics in Bolivia

Progress or collapse

Aug 8th 2002 | LA PAZ
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The new president faces a weak economy and a combustible polity

Get article background

AP

No respite for Goni

HE IS one of Bolivia's richest men, thanks to his family's mining businesses. But he is also one of his country's most experienced politicians. As planning minister from 1986 to 1988, Gonzalo Sanchez de Lozada tamed hyperinflation and opened the economy. As president from 1993 to 1997, he pushed through liberal reforms. On August 6th, Mr Sanchez (known to Bolivians as “Goni”) took office as president once again. But he will govern a poor and troubled country, whose economy has been battered by its neighbours' recessions and whose politics are changing fast.

The new president's mandate is frail. In the election on June 30th, he won only 22.5% of the vote, barely ahead of Evo Morales, the socialist leader of the coca workers' union, who got 20.9%. Under the constitution, the new Congress chooses between the two front-runners. This week, after some wheeling and dealing, it chose Goni. He has forged a coalition between his own centre-right Revolutionary Nationalist Movement and its former rival, the Movement of the Revolutionary Left (MIR), which, despite its name, prefers government jobs to ideology. The MIR will have seven out of 18 cabinet jobs. So long as this alliance lasts, it will give Mr Sanchez a narrow majority in Congress.

But Mr Morales will give him tough opposition. For a decade he has led sometimes violent protests against the government's efforts, backed by the United States, to wipe out Bolivia's coca crop and thus its cocaine industry. In the 1997 election he won only 3% of the vote. His rise to almost 21% is stunning. It owes something to heavy-handed warnings not to vote for him from Manuel Rocha, the American ambassador. But it owed more to Bolivia's economic troubles, and especially those of the impoverished countryside.

The rise of Mr Morales is part of a broader political upheaval. Eight out of ten members of Congress are newcomers. For the first time, about a quarter of the legislators are of mainly Indian descent. Most of them are in the opposition. Their election has certainly made Bolivia's democracy more representative.

For a decade until 1999, the economy grew at a steady 4%, thanks to reforms and foreign investment. But progress has halted, partly because of the regional recession, and partly because the outgoing government eradicated 50,000 hectares (123,500 acres) of coca but was unable to provide enough proper alternatives.

Now Bolivians face a choice between “progress and collapse”, Mr Sanchez warned them in his inaugural speech. He proposes to double public investment (in roads, schools, hospitals and a new public housing plan), to $1 billion. His hope is that aid donors, who already provide $500m a year, will stump up the money.

The new government faces two immediate controversies. The first concerns a plan to export gas via a pipeline to the Pacific coast. This is Bolivia's main economic hope. The cheapest route is to a port in Chile. But that arouses passionate opposition among the many Bolivians who have not yet learned to live with their defeat by Chile in a war 120 years ago.

The second issue is coca. Mr Morales's supporters can be expected to redouble their protests against the

outgoing government's policy of “zero tolerance” for coca. They have already won a small victory: an American-financed army unit set up last year to clear coca farmers' roadblocks in the Chapare (formerly the main growing area) is being disbanded, after several mistakes by trigger-happy troops.

Goni has not said whether his government will start eradicating “excess” coca in the Yungas region, as the Americans want. This is where 12,000 hectares of the stuff is legally grown for traditional uses, such as chewing and tea. But Jose Guillermo Justiniano, the development minister, says that in the Chapare, zero tolerance will continue. Inside and outside Congress, the new government faces a rough ride.

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Planning in Mexico

Grounded

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The cancellation of a new international airport bodes ill for other big projects

AP

Mexico's alternative to the jumbo jet

THE pope's departure after a visit to Mexico last week no doubt struck the government as a good moment to bury embarrassing news. If so, the ruse failed. The announcement that the government was bowing to protests and cancelling a plan to build a new international airport outside Mexico city drove the pontiff from the front pages. This climbdown was not only a blow to the reputation of President Vicente Fox. It also showed that although the old authoritarian method of ramming through big infrastructure projects no longer works in Mexico, a democratic planning system has yet to take its place.

Mexico city's present airport is hemmed in by suburbs, making expansion difficult. For 30 years, officials have studied alternatives. Last October, Mr Fox's government said it would build the new airport on the dried-up bed of Lake Texcoco, only 30km (20 miles) from the city centre.

Local farmers, whose land was to be expropriated, had other ideas. Their protests attracted support. San Salvador Atenco, a nearby town, became a spontaneous campus for machete-wielding protesters, anarchists, Zapatists and other rebels in search of a cause. Last month, the protests turned violent: one person was killed in clashes with the police, and 15 taken hostage (though later released). Local residents now want to form an “autonomous government” in the style of the Zapatists in the state of Chiapas.

The government's capitulation has implications for other large-scale infrastructure plans, such as the Plan Puebla-Panama in the south, and the *Escalera Nautica* (nautical ladder), a tourist scheme in Baja California. These were supposed to be examples of Mexico's modernisation. They now risk the same fate as the airport. All are projects with which the president, a former businessman, is closely associated.

Part of the problem is caused by Mexico's confused land laws, which date from the revolution of 1910-17. Under the constitution, much land has been granted to *ejidos* (peasant communities), many of which have disputed boundaries. And while the government has the right to expropriate *ejido* land for a “public” use or project, the terms of compensation are vague and unrelated to market value.

This vagueness allowed the Atenco farmers to challenge the government's (at first miserly) offers of compensation in the Supreme Court. Under the 70-year rule of the Institutional Revolutionary Party (PRI), which ended when Mr Fox won power in 2000, the court did as it was told. Mr Fox abandoned the airport out of fear that the court would no longer obey its orders. What is more, even bigger legal problems now cloud the Plan Puebla-Panama. This runs through many communal lands, occupied by indigenous people, with boundaries that are even more fluid than those of *ejidos*. Disputes have already prompted violent clashes between feuding villages.

The airport saga is an example of the kind of top-down planning that many hoped would end with the rule of the PRI. In court, the Atenco farmers challenged the government's failure to consult sufficiently over the project.

The government looks set to make the same mistake with the *Escalera Nautica*, a proposed $1.7 billion development which

would ring the Sea of Cortes, an ecological treasure-trove, with 27 marinas holding up to 50,000 boats. Work has already begun but no environmental-impact study has been filed. Officials from the government's own Institute of Ecology argue that the whole project is too secretive. They accuse the tourist-development agency of failing to explain its plans to local residents. Among those affected are the lobster fisherman of Punta Abreojos, who are preparing to be as vocal as the Atenco farmers.

In the old days, the PRI would have paid the necessary bribes to get its way, notes a foreign banker. Mr Fox's people are too honest for that. But they need to devise a way to listen to local people and still gain consent for projects of genuine national importance.

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Politics in Canada

Joe goes, will Jean?

Aug 8th 2002 | OTTAWA
From The Economist print edition

A time to retire, a time to contend

JOE CLARK was once briefly Canada's prime minister, and later and more impressively its foreign minister. More recently, he has led his Progressive Conservative Party in a fight for survival. But the party won just 13 seats in the House of Commons at the last election in 2000, and Mr Clark could not turn it into a credible alternative to the dominant Liberals of the prime minister, Jean Chrétien. With his party's poll ratings stuck at just 14%, on August 6th Mr Clark told the party to elect a new leader early next year, saying he had taken it as far as he could.

Mr Clark's problem was that conservative voters are divided between his party, whose support is mainly in the east, and another, stronger, outfit, the Canadian Alliance, which is dominant in the west. His hopes rose last year when he attracted a handful of disaffected Alliance MPs to join him in a loose parliamentary coalition. But in April the rebels bolted back when a new Alliance leader, Stephen Harper, threatened them with expulsion.

Will Mr Clark's decision to depart help long-standing efforts to unite the right? Mr Harper immediately challenged the Conservatives to consider a merger and a joint leadership convention. He had earlier offered to negotiate joint slates of candidates for the next election. But some Tory MPs cling to the memory of past glory as a national party, and dismiss the Alliance as a regional force. Other Conservative leaders do not: Mike Harris, who resigned last year as Ontario's premier, is said to be keen to lead a united right-wing party.

The right is not alone in seeking new leaders. Alexa McDonough, the leader of the small, leftish, New Democrats, announced in June that she would stand down after seven years. And the Liberals are embroiled in an increasingly open and hard-fought leadership battle in which Mr Chrétien is being challenged by Paul Martin, his long-serving finance minister whom he sacked in June. Mr Martin looks to have the edge. His supporters are strong in local constituency organisations, and are likely to be in a majority at a party convention in February where the leadership could be decided. The prime minister's loyalists retort that their man has won three election majorities. But his tide may finally be ebbing. More than a dozen Liberal MPs have called for Mr Chrétien to retire with honour. Mr Clark has just shown him the way.

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Japan

There's always someone looking at you—and the people don't like it

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AP

A new national database has sparked a rare outbreak of civil disobedience

IN THE late 1970s, nervous residents of Suginami-ku, one of Tokyo's western wards, were battling the municipality's plans to load their personal records into electronic databases, fearing the move would make it easier for the government to invade their privacy. To bypass the protests, local officials simply had the menacing new computers smuggled into the ward's offices—at 3am. A quarter-century later, Suginami-ku's residents are at it again, fighting fiercely to protect their privacy. This time, however, the local government is eagerly taking the residents' side. And to the embarrassment of Japan's national officials, the municipality is keen to wage this campaign in broad daylight.

This week, in an unusual act of defiance, at least by Japanese standards, Suginami-ku and five other municipalities refused to carry out a central-government directive to tie their records into a new national network, which went live on August 5th. The network, known in Japan as Juki Net, will assign each citizen an 11-digit identification number, and then link that electronic marker to the person's name, sex, address and date of birth. The system will then allow any ministry, agency or municipality to tap into such data on any Japanese citizen.

With local government divided among more than 3,300 cities, towns and villages, a half-dozen holdouts might seem easy to dismiss. But given the influence Japan's central government has usually wielded, their dissent has registered loudly. Within a week of announcing on August 1st that it would boycott the new system, Suginami-ku had received over 40 requests from non-residents to establish an address in the ward, as a way to give Juki Net the slip. In a recent poll by the *Asahi Shimbun*, one of Japan's biggest dailies, 86% said that they expected some personal information to leak from the new computer network, while 76% believe that the project should be postponed. Detractors are especially incensed that the government has pressed ahead without having first passed a privacy bill in the last session of parliament, which they viewed, with some justification, as a prerequisite for the system's being allowed to go online.

The central government, however, claims that the new registry will promote more efficient electronic government (which only 37% of those polled believe), and will contain only limited, reasonably harmless, information on citizens. Its core argument is that existing laws and procedures already provide perfectly adequate protection and render the national-identity numbers innocuous.

Although a clause in the 1999 law that set Juki Net up called on the government to submit a broad privacy bill before it could become active, officials point out that the same law placed restrictions on the system it created: the data cannot be shared with (non-governmental) third parties or used for purposes that are not already specified. They also say that since Junichiro Koizumi's government did table a broader privacy bill (which failed to win approval) in the most recent parliament, the original agreement has been honoured. Finally, apart from these legal restrictions, officials at the home-affairs ministry, which oversees Juki Net, place great stock in their procedures for catching abuses.

Wary Japanese citizens find it hard to choose which of these arguments to rubbish first. Just this week, as Juki Net went live, the headlines furnished two examples of how unprotected information can be. Fujitsu, a big electronics firm, announced that blackmailers had got hold of intelligence on a network it designed for the self-defence forces. Then prosecutors building a case against Muneo Suzuki, a scandal-bitten lawmaker, revealed that they had accidentally faxed their secret files to a real-estate company. Meanwhile, the home affairs ministry, the would-be guardian of Juki Net's integrity, revealed only last month that a separate data-sharing network it oversees for local governments was easily vulnerable to hackers. Topping it off, within just two days of Juki Net's launch, personal data on roughly 2,500 people had already been mailed to strangers.

Even if the new database could be reasonably secured against outsiders, many Japanese are hardly willing to entrust the system to the insiders who will be allowed to use it every day. In May of this year, the defence agencies got caught creating a database on citizens who had requested materials under last year's Freedom of Information law, including information on their political views. After one official tried to delete the evidence, and ruling-party lawmakers attempted to suppress a 40-page report, those responsible were slapped on the wrist by their ministry for turning a measure aimed at promoting open government into a tool for covert surveillance. Their pay was docked.

With such a track record, Juki Net's opponents wonder, what is to prevent the government itself, or single-minded bureaucrats within it, from later using the national-identity numbers to compile alternate databases, with information on citizens' health records, pension benefits, or religious and political affiliations? And if anyone does try it, how often will they be caught? Or punished? Among the safeguards it now places on local records, Suginami-ku's government deliberately tries to prevent such abuses by keeping its databases fragmented, giving each of its half-million residents a different identification number for different purposes, from health, to tax, to residency files. But that is not efficient. Why, the central government wonders, won't the ward's jittery residents hurry up and trust the central bureaucracy again? After all, it has already told them who knows best.

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Taiwan and China

Strait talk

Aug 8th 2002
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Taiwan's flexibility has not been rewarded by China

AS THE great American baseballer Yogi Berra once said: “It's déjà vu all over again.” Not for the first time, a Taiwanese leader has made comments that appear to pull the island closer to a declaration of independence from China, drawing a belligerent response from the old men in Beijing who have vowed to attack the island rather than let it go its own way.

In the most provocative remarks in his two years as Taiwan's president, Chen Shui-bian on August 3rd described the current situation as “one country on each side” of the Taiwan Strait. “Taiwan is not a part of another country, not a local government or province of another country,” Mr Chen said. Speaking via a satellite video link to a meeting in Japan of groups favouring Taiwan's independence, Mr Chen also suggested that he might favour holding a referendum in Taiwan to change the island's sovereign status.

China's reaction was no less alarming for being predictable. Mr Chen's heresy, Beijing said two days later, threatened to harm “Taiwan's economy, hurt the personal interests of Taiwan compatriots and lead Taiwan to disaster.”

By August 7th, senior Chinese military officials had chimed in. One unnamed officer gave warning in the mainland's official press (with dubious logic) of rising odds that “peace will have to be safeguarded and won through the use of force.” A senior military analyst promised that China's army “is ready to deal a heavy blow to the separatist forces and foreign forces that attempt to intervene in China's reunification” with Taiwan.

Similar sniping took place three years ago when Taiwan's then president, Lee Teng-hui, used the phrase “special state-to-state relations” to describe relations across the strait. Almost immediately, Mr Lee's party began to back-pedal. Now Mr Chen has done much the same.

Three days after his speech, Mr Chen allowed (through a spokesman of the independence-leaning Democratic Progressive Party, which he leads) that his comments “were oversimplified and may have caused misunderstanding.” Taiwan also announced that it would cancel anti-submarine exercises that had been scheduled to begin on August 15th, for fear they would be misinterpreted.

Wherever they lead, Mr Chen's remarks were probably meant to counter the widespread perception in Taiwan that the goodwill gestures he made on taking office—promises that Taiwan would not declare independence, not have a referendum on the issue and not formalise Mr Lee's hated “state-to-state” model of cross-strait relations—have been in vain. Certainly there is a sense among Mr Chen's closest supporters that Taiwan has shown weakness, and that the ever-greater inter-linking of the two economies, which Taiwan has promoted, benefits China without it paying any diplomatic price. With an election only 18 months away, Mr Chen may have felt the need to restore his credibility by getting tough. No doubt he remembers that in 1996 Mr Lee did splendidly in an election campaign based almost exclusively on defiance of China.

Mr Chen made his move at a time when the mainland's own politics have reached a uniquely tricky pass. What had long appeared to be an orderly succession in which China's President Jiang Zemin would give way to Vice-President Hu Jintao is now bogged down in uncertainty. The Communist Party's congress, which is held every five years, was meant to take place in September or October, but no date has yet been officially announced. Mr Jiang meanwhile is waging a vigorous campaign that seems designed to find a way in which he might remain at the helm.

All this has led to a fair amount of grumbling, by both those in Mr Hu's camp who expected to be moving

up, and those who feel that an orderly transfer of power would mark an important step forward for China's political system. Mr Jiang can thus ill afford to look weak in his response to Taiwan's latest challenge. China's army is consistently hardline when it comes to Taiwan, and Mr Jiang needs its backing if he is to hang on to power. Although the military men are unlikely to advocate direct armed action, they will frown mightily upon any failure by the mainland to show backbone, and may well rattle a sabre or two.

Yet Mr Jiang also has to bear in mind that the Bush administration has vowed to help Taiwan defend itself. Good ties with America are another priority for Mr Jiang, who likes to portray his ability to manage that relationship as one of his chief qualifications for the top job. He is scheduled to visit President Bush in Texas in the autumn. His reputation as an international statesman would surely suffer if a cross-strait drama interfered with those plans.

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Australia

Hard Labor

Aug 8th 2002
From The Economist print edition

The thrice-beaten Labor Party is soul-searching

Get article background

IN ALL its 101-year history, Australia's Labor Party has rarely been at a lower ebb. It has now lost three elections in a row, the latest, last year, producing its worst vote since 1966. Since then it has installed a new leader, Simon Crean, but nine months into the job he is struggling to strike a chord with Australians, a recent opinion poll giving him a mere 20% approval rating. After months spent poring over the electoral wreckage, two Labor elder statesmen, one of them Bob Hawke, a former prime minister, are due to deliver a report on August 9th on how the party needs to reform. Some Labor members are sceptical about the capacity of Australia's oldest party to reinvent itself yet again.

It did so successfully in the early 1970s when Gough Whitlam, a former Labor prime minister, shook up the party's moribund structure and introduced a series of social and foreign-policy reforms that have since become bipartisan. It did so again during Labor's 13-year rule from 1983, when Mr Hawke and Paul Keating, his successor as leader, brought in financial and economic reforms that laid the foundation for a booming economy.

But these electoral successes masked longer-term problems. When Labor lost the government in 1996 to the conservative coalition led by John Howard, it seemed to take the view that all it needed to do was sit out another election or two, and power would return to it. The voters, unfortunately for Labor and its then leader Kim Beazley, thought otherwise.

With the economy delivering prosperity to more people than ever before, few could see any real difference between the conservative coalition and Labor on economic, health, defence or foreign policy. Voters were disinclined to reward a Labor Party that no longer seemed to have an identity. And, when Mr Howard won his third election victory last November with a campaign of fear over the war on terrorism, many traditional Labor Party supporters were outraged by Labor's acquiescence in the prime minister's demonising of Afghan and Iraqi asylum-seekers; they deserted Labor for the Greens.

Only now has the full impact of Labor's crisis become apparent. The party which had its roots in the union movement 100 years ago is still largely controlled by factional union “warlords” in an age when fewer than a quarter of Australian workers belong to unions. Party membership is falling. So is the proportion of votes Labor receives from women and younger people. It is small compensation for Labor that the party forms the government in all six Australian states: real power to shape the country's future lies in Canberra.

John Button, a respected senior minister from Mr Hawke's government, painted a bleak picture of where Labor is headed in a recent, widely discussed essay. As Mr Button sees it, Labor's failure to shake itself free of union influence or to reform its ideas has left it with a narrow base of parliamentary candidates drawn from “political operators” rather than people who can relate to the broader community. Both Mr Crean and Mr Beazley, his predecessor as leader, are sons of former Labor members of Parliament—what Mr Button calls Labor's “holy families”, whose members make up 10% of its numbers in the House of Representatives. It is time, Mr Button argues, for a “friendly divorce” between Labor and the unions: “[Labor] no longer represents contemporary Australia. Its national body has become an offshore island adrift from the rest of the party...a barren and rocky outcrop untouched by new ideas.”

The report that Mr Hawke and his colleague, Neville Wran, are to present to the national executive, Labor's main administrative body, is thought to support some of these bitter truths. It is expected to call for diluting union representation at party conferences from 60% to 50% (some think even this is too

much), and doubling the size of policymaking conferences to take in a broader range of delegates. A separate review of Labor's policies is under way. Mr Crean has called a special party conference in October to approve this package of reforms. Pushing them through successfully will be a make-or-break test of his leadership.

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Afghanistan's security

Brothers in arms

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Building a national army and police force—or trying to

TROUBLE is brewing again in the south-east of Afghanistan. Over the past few days, followers of Pasha Khan Zadran, a local warlord, have set up roadblocks in Paktia province and are threatening to destabilise the region. Ignoring requests to give up his weapons and his men—he claims to command 6,000 troops—he is challenging the authority of President Hamid Karzai, who, without international assistance, has little muscle outside Kabul. Mr Karzai has declared that local warlords need to be disarmed, and his international friends want to create a national army and police force. Mr Zadran makes it painfully clear that this is no easy task.

The hope is to create for Afghanistan a 75,000-strong police force and an army of 80,000. Numbers are not the problem: there are estimated to be 200,000 “soldiers” in the country. But how do you hammer fighters who have never received any proper training into a disciplined force? The hope is to take only the better elements into the new army and police, and to send the others back to civilian life.

Germany is advising the government on police training and recruitment. Later this month about 900 recruits will start a three-year course in the newly refurbished police academy in Kabul. Building an army is an even tougher job. The bill stands at $289m for this year alone. The United States is co-ordinating the training. At the end of July, the first battalion trained by American special forces graduated from a ten-week crash course. Creating an efficient multi-ethnic force loyal to the central government, though, will take more than training and money. Local authority has been built on force and patronage, which makes the enforcement of central authority difficult. The American-led coalition's use of local militias in the hunt for remnants of al-Qaeda has sometimes blurred the lines: troops of the troublemaking Mr Zadran took part in Operation Anaconda in the spring.

In the provinces, many local leaders fear that a national army, far from being truly multi-ethnic, will just be a tool in the hands of the Tajiks of the Panjshir valley, who constituted the backbone of the Northern Alliance and now control the country's embryonic defence and intelligence systems. In Kabul, the ministry of defence is headed by the powerful Mohammed Qasim Fahim, a Tajik who has already placed many of his men in key positions and is trying to promote his protégés at the local level as well.

In Afghanistan's shaky state, it will be hard to convince local leaders to give up their military power and the security and resources it provides. One way is to reward those who submit to central authority with jobs and influence in the central government. But the murder of Haji Abdul Qadir, the governor of Nangarhar who came to Kabul when he was appointed vice-president, is likely to discourage those tempted to follow in his footsteps. Even Mr Karzai, who has increasingly been trying to assert his authority over Mr Fahim during the past few weeks, appears worried about his own security: soon after Mr Qadir's death, he replaced his Afghan security guards, provided by the ministry of defence, with American ones.

There are glimmers of hope. Guns were recently collected in Wardak province after the government had ordered that Afghans who are not part of the armed forces should hand in their weapons. Last month, in the Sholgareh district near Mazar-i-Sharif, three factions handed in their arms under the supervision of local elders and the United Nations. But the 400 guns turned in are only a third of the total number thought to be in the area.

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Indonesia

In Aceh, “Indonesian” is a synonym for foreigner

Aug 8th 2002 | BANDA ACEH
From The Economist print edition

Indonesia is considering even more repressive measures in its restive province

THE blackened, roofless school-building stands out against the lush green rice paddies of Pidie district, in the heart of Indonesia's Aceh province. A woman living nearby explains how unknown assailants set the building alight in the middle of the night. A few days before, her neighbours had found a mutilated corpse in one of the irrigation channels that waters the fertile fields. The victim's brother says the army killed him, to stop him asking questions about the disappearance of another brother. He himself claims to have been tortured by the police for mounting a peaceful protest. Almost everyone in the village has a story about killings, kidnappings, extortion or violence, at the hands of either the Indonesian security forces or the separatist rebels of the Free Aceh Movement (known by its Indonesian acronym, GAM). And almost everyone fears that the government's new approach to the conflict, to be announced later this month, will only make things worse.

Violence has waxed and waned in Aceh since 1976, when GAM first began fighting for independence. But the province at Indonesia's north-western tip has an even longer tradition of resistance to outside authority. It used to be an independent sultanate, which Dutch colonisers managed to subdue only in 1910. Following Indonesia's independence in 1947, and during the dictatorial rule of former president Suharto in particular, the central government relied on force to keep the restive Acehnese in check. Since Mr Suharto's fall, in 1998, his successors have adopted gentler tactics, at least until now.

Although the military campaign continues, the authorities in Jakarta have granted the province a special autonomous status, conceded a greater share of revenues from its extensive oil and gas fields, and begun peace talks with GAM. Now, nationalist politicians and soldiers are calling for an end to this conciliatory approach, citing the continuing violence as evidence of its ineffectiveness. A series of cabinet ministers and generals visited Aceh in July, to contemplate the imposition of martial law, or a “civil emergency”, a slightly milder alternative. Last week, President Megawati Sukarnoputri spoke of crushing GAM by force. At the least, the government seems likely to send yet more troops to the province, to add to the almost 30,000 that are already there, hunting down some 2,000 guerrillas.

Locals urge the opposite. They say violence remains rife because the government undermined its own concessions by stepping up its military campaign against GAM even as it made them. Over the past year, the army has set up a new regional command in Banda Aceh, the provincial capital, and begun more aggressive “sweeps” of the countryside. The new tactics seem to work: army raids regularly result in the killing of five or six rebels at a time, and in January soldiers surprised Abdullah Syafi'ie, GAM's commander, in his jungle hideout, and shot him dead.

But GAM is still capable of embarrassing the military. In June, it shot six soldiers dead in broad daylight outside Banda Aceh's airport. Last month, it kidnapped seven Indonesian athletes from a competition designed to showcase the improving security situation in Aceh. What's more, the army's new tactics, although effective, seem to be putting more civilians in harm's way. Earlier this year, the International Crisis Group, a think tank, estimated that four out of every five victims of the conflict are non-combatants. In Pidie alone, a local human-rights group documented 120 killings, 87 claims of torture, and 463 instances of looting last year.

The security forces and GAM blame one another for these abuses, officially attributed to “persons

unknown”. But the top brass obviously think their troops are doing something wrong, because they have recently started a much-publicised campaign to instil discipline in the ranks. Military spokesmen, though, can only think of one incident in recent years when a soldier accused of human-rights abuses was tried and convicted. The imposition of emergency rule would reduce the military's accountability yet further.

It would also further alienate ordinary Acehnese. Although it is impossible to tell how many of the province's 4.5m people support GAM's goal of independence, many locals clearly resent the government's heavy-handed and arrogant conduct. Throughout the province, the word “Indonesian” is used as a synonym for foreigner, and not in a complimentary sense.

That is where the peace talks come in. The promised “all-inclusive dialogue”, which might follow earlier rounds of discussion, would do much to convince ordinary Acehnese that officials in Jakarta care about their opinions, whatever the outcome. Even GAM, despite its demand for independence, has agreed to accept autonomy, rather than independence, as a starting point for negotiations. Yet the more the government prevaricates, the likelier it is that GAM and their fellow Acehnese will dismiss the talks as window-dressing even if they do go ahead.

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Israel and the Palestinians

Towards a war of attrition

Aug 8th 2002 | EAST JERUSALEM
From The Economist print edition

AP

A plan for ending the violence is in the air, but many believe it to be dead on arrival

Get article background

ONLY a short time ago, the current level of slaughter and repression between Israel and the Palestinians would have been deemed intolerable. Now, as the conflict settles into a deadly war of attrition, it seems almost routine. In one day (August 4th) Palestinian gunmen and suicide bombers killed 12 people in six attacks. These included the bombing of a bus in Israel, which killed nine people, three of them soldiers, and the shooting of an Israeli security guard in East Jerusalem.

Israel responded to these attacks in ways old and new. Nine Palestinians, most of them militants, have been killed since August 4th, all Palestinian traffic is barred on West Bank roads, southern Gaza is sealed, and northern Gaza was invaded and fugitives arrested. The newer ideas include a raft of measures aimed at deterring the bombers by collectively punishing their kin and associates. So far the homes of 13 suicide bombers have been demolished, three siblings are threatened with imminent exile to Gaza and—the fiercest of the punishments—Israel's interior minister, backed by the prime minister, Ariel Sharon, has decided to revoke the citizenship of three Israeli Arabs with “ties to terrorist organisations and activity”.

But Mr Sharon also flagged diplomacy. On August 5th he approved a meeting between his defence minister, Binyamin Ben-Eliezer, and Saeb Erekat, one of the Palestinian Authority's senior negotiators, plus Palestinian security chiefs. They discussed the so-called “Gaza first” plan, bringing back memories of the first months of the Oslo peace process. Under this, Israel is offering to relax its military and economic siege on Gaza in return for the PA resuming security co-operation with Israel, and reforming its police forces.

If the new pilot plan works, and a ceasefire in Gaza is achieved, Israel suggests that similar arrangements could in the future be made for the seven West Bank cities now under full occupation. The PA has given the plan “preliminary” approval but wants Israel to withdraw from at least one of these cities now, either Bethlehem or, possibly, Ramallah, the PA's “temporary capital”. The dispute continues, but the plan was expected to be discussed when PA officials meet Colin Powell, America's secretary of state, in Washington this Thursday.

Why is Mr Sharon doing what he said he would not do: negotiating “under fire”? Further, why is he giving

his blessing to meetings with Palestinian officials who have been hand-picked by a leader he has declared not only irrelevant, but the head of a “terrorist entity”?

One reason may be his awareness, shared now by the Israeli army, that there is only so much punishment Palestinian society can take if it is not to tip into absolute collapse. A survey, sponsored by America's Agency for International Development, was published this week, revealing how dire the situation in the occupied territories has become. One in five children under five suffers from malnutrition, and one in ten women of childbearing age is anaemic. The survey shows an economy where over 50% of the population is forced to borrow money, and 17% to sell assets, to buy basic food.

The consensus of most aid agencies is that this suffering is caused by Israel's closure policies, which not only seal the occupied territories from Israel, Egypt and Jordan, but each Palestinian town and village, one from the other. The only route to recovery, they say, is for Israel to withdraw from the areas that the Palestinians used to control themselves, and to open the border crossings.

Instead, Mr Sharon's solution is to call for huge influxes of relief aid, to keep the Palestinians alive while his tanks remain in their cities, and all movement and trading remain banned. The prime minister's approach is supported by America, which defends Israel's reoccupation in the name of self-defence but also wants a big relief effort to stave off what Daniel Kurtzer, the American ambassador to Israel, calls a “humanitarian disaster”. America is also very keen, say Israeli analysts, on winning some relative quiet in the West Bank and Gaza in readiness for its strike on Iraq.

The upshot is a policy aimed at containing the *intifada* rather than seriously trying to resolve it, either by military or diplomatic means. The Palestinans suspect that this is an approach that suits Mr Sharon, since it allows him time to consolidate Israel's present conquests into a longer-term interim occupation. It also suits Hamas, which has long championed resistance over negotiations, and whose stock has risen with the fearsome attacks it has carried out in revenge for Israel's assassination of its military leader, Salah Shehada, together with 14 other Palestinians, in Gaza last month.

Hamas has already rejected “Gaza first” as an Israeli ruse to continue the occupation by other means. Its veto is important, since the only way the PA can achieve a ceasefire in Gaza is with the consent of the Islamists: their current popularity rules against any attempt to impose a truce that they oppose. A month ago, under pressure from Mr Arafat's Fatah movement, and sponsors such as Saudi Arabia, Hamas was beginning to consider holding some of its fire. But now, after the assassination in Gaza and the unusual anger this caused, the pressure has evaporated.

It will not be resumed, say Palestinians, until they feel an improvement to their lives, and political content is given to George Bush's vision of a Palestinian state. Short of this, Palestinians say, “Gaza first” will get nowhere—which is why Mr Sharon is allowing it to be considered.

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Iraq and the UN

Come and talk to us, says Iraq

Aug 8th 2002
From The Economist print edition

Try again, the UN replies. And anyhow it won't do you any good, adds America

Get article background

AP

Good news is rare in Baghdad these days

IF THE aim were to get the arms inspectors back to work, and the disarmament of Iraq restarted, the gulf between the latest proposal from Baghdad and the UN's stated position might eventually be bridgeable. Kofi Annan, the UN's secretary-general, is prepared to try to bridge it, to test how far a belatedly alarmed Iraqi regime might be prepared to go. But his efforts are undermined by America's now outspoken confirmation that the return of the inspectors is irrelevant to its determination to get rid of Saddam Hussein.

On August 1st Naji Sabri, Iraq's foreign minister, wrote to Mr Annan inviting Hans Blix, the UN's chief weapons inspector, and his team to Baghdad for technical talks to establish a basis for the inspection mission when or if this is resumed. Arms inspectors, under a different name and chiefs, spent seven difficult years searching for and destroying weapons of mass destruction, but were withdrawn at the end of 1998, and not allowed by Iraq to return.

The UN's position, as stated in a 1999 Security Council resolution, is that Iraq should allow the team “immediate, unconditional and unrestricted access to any and all areas”, and that, after 60 days of such access, Mr Blix should present the council with a “work programme” for finding out what has been going on in the four missing years, and how to clean Iraq of its nastiest weapons. After a disputatious talk with council members (America and Britain dismissive; others, led by Russia, suggesting that Iraq's offer might open the way to diplomacy), Mr Annan wrote cautiously back to Mr Sabri, thanking him for the invitation, but stressing that the council had already laid down what the inspectors should do, and that Iraq was expected to conform to this.

The secretary-general, like others alarmed by the rush to war, is concerned to explore non-violent alternatives. But he is boxed in. His three rounds of talks with the Iraqis earlier this year came to nothing, largely because of the conditions—on timing, sanctions and so forth—that Iraq hoped to attach to the mission's resumption, but also because of the limits that America put on the talks.

To avert an attack that now looks likely if not imminent, Mr Hussein might, conceivably, be prevailed upon to drop some of his conditions. In a speech on Thursday he sounded predictably defiant, but also called on the Security Council to answer the questions he had put to it.

But has he much to gain from flexibility if, as the Americans now openly say, it makes no difference? “Nothing's changed,” George Bush told reporters. John Bolton, the State Department's arms-control man, spelt it out. “While we also insist on the reintroduction of weapons inspectors, our policy at the same time insists on regime change in Baghdad and that policy will not be altered whether inspectors go in or not.” Mr Hussein's only strategy, in these circumstances, is to try to spread discord among America's friends.

He is doing quite well on this track: there is considerable disquiet in Europe and elsewhere (see article). Even the British government found itself wriggling over whether regime change was the aim, regardless of any return of the inspectors. But Iraq's need is to prevail with the Americans themselves, and here it has a tougher time. The Senate hearings last week may have given Iraq a bit of comfort since some

Republicans, as well as Democrats, appealed to Mr Bush to proceed with caution and to consider the cost.

Iraq's rather bizarre offer this week to American congressmen, accompanied by experts of their choice, to come to Iraq to hunt for hidden weapons, fell on stonier ground. “I can't think of anything funnier than a handful of congressmen walking round,” said Donald Rumsfeld, the secretary of defence, “They'd have to be there for the next 50 years to find something.”

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Peacekeeping in Africa

Where others fear to tread

Aug 8th 2002 | PRETORIA
From The Economist print edition

South Africa bravely sets out to help make peace in Congo

"IF SOUTH AFRICA won't do it, who will?" The "it" is the terrifying task of peacekeeping in Congo, and the question is asked, quite reasonably, by Greg Mills, a political analyst. Possibly no African nation will be able to police Africa's most confusing war zone, but South Africa is clearly the best bet.

Its army is the continent's most sophisticated, and seen to be neutral. Last month, on assuming the chair of the new African Union, South Africa's president, Thabo Mbeki, declared that Africans should take responsibility for ending their own conflicts. This month, he gave his admirable words credibility, by offering 1,500 troops as UN peacekeepers in Congo, while nudging Ghana and Senegal to follow suit.

Over the past few months, Mr Mbeki successfully brokered a peace agreement between the Congolese government and Rwanda, whose troops occupy much of eastern Congo. The deal was signed in Pretoria on July 30th. The UN Security Council is expected soon to announce an expansion of its mission in Congo, as part of a renewed push to end four years of fighting. This bustle of peacemaking activity is encouraging. But its success depends on the two sides' *bona fides*, and the questionable fitness of South Africa's army.

Congo and Rwanda have agreed to end their differences by late October. But the deal is ominously similar to one signed in 1999, which failed. Rwanda's president, Paul Kagame, has offered to pull his 20,000 or so soldiers out of Congo, on condition that the Hutu rebels who carried out the Rwandan genocide of 1994, many of whom are now hiding in Congo, are disarmed, expelled or arrested. Rwanda says its troops are in Congo to prevent these *génocidaires* from regrouping and launching an invasion into Rwanda.

Under pressure from donors, Congo's president, Joseph Kabila, says he will try to root them out. But since many Rwandan Hutus have reportedly joined his own army, a serious attempt to purge them could prove suicidal. And the roving bands of Hutu militiamen in eastern Congo are also reluctant to lay down their guns, not least because Rwanda promises to put 5,000-15,000 "ringleaders" of the genocide on trial, some for their lives.

The extra peacekeepers are expected to arrive in Kindu, the UN's frontline headquarters in eastern Congo, by the end of August. They will join an existing force of 4,000 blue helmets, who are derided by locals as ineffectual "tourists". The mission may badly overstretch South Africa's army. The peacekeepers will have to be rotated and regularly replaced, but only a small proportion of South Africa's 76,000 soldiers are fully trained and fit. One infantry commander told a parliamentary committee this month that barely half of the 1,021 posts in his battalion were filled. Of those, only 138 soldiers would meet UN standards for deployment, which include being HIV-negative. South Africa admits that 23% of its soldiers are infected, but some say the rate is much higher.

There are other problems, too. The modern South African army was created by the merger of the old apartheid forces with their former guerrilla enemies and the laughable armies of the old "independent" black homelands. One of these forces had no privates—all had been promoted. Today, there are still too many generals: one for every 250 troops, compared with one for 2,000 in the American army. Recent South African actions have achieved mixed results. In 1998, an attempt to restore order in Lesotho, barely a mile from South Africa, left Lesotho's capital in ruins. Nine months ago, South Africa sent a battalion to guard local politicians in Burundi. They have so far succeeded, but the civil war has not eased. Bringing peace to Congo, which is huge, distant, thickly jungled and home to dozens of warring factions, will be harder.

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Crime in Kenya

Nairobbery

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From The Economist print edition

Lawlessness grips the Kenyan capital

AS THE car slowed to a halt, two hands slipped through the open window and held fat balls of fresh excrement, menacingly, before your correspondent's nose. Two street boys, resting their glue-bottles on the window-frame, demanded a shilling (less than two American cents). Your correspondent escaped unsmeared, but several of his neighbours have been less fortunate. Nairobi has grown so lawless that this sort of thing is now common.

Kenya is a stable country, and its capital, with its sparkling skyscrapers and herds of Land Cruisers, is one of Africa's richest cities. And yet three-quarters of Nairobi's people say they feel unsafe in their homes at night. Reported crime figures are unreliable, but a UN-financed survey last year suggested that the city's residents are more likely to be robbed or assaulted than people who live in central Johannesburg (see table).

Worse than Johannesburg

In previous year, % of respondents who had been:

	Johannesburg (Central), 2001*	Nairobi 2000†
Robbed	30	37
Burgled	10	29
Assaulted	12	18

*Household survey, Institute for Security Studies
†Street/Household survey, UNCHS

Of more than 10,000 people surveyed, 37% had been mugged in the previous year. Two-thirds of muggings involved violence, and 40% of victims were injured. Burglaries were even more frightening. Whereas, in most countries, burglars prefer the owners of the houses they rob to be elsewhere, Nairobi's burglars tend to burst in while their victims are at home. Almost a third of respondents had been burgled in the previous year, typically by a gang of five or more thugs waving axes. Car-jackings, too, were much more violent than in, say, South Africa. In two-thirds of cases, the victims were taken hostage, and one female victim in ten was raped.

What ails Nairobbery, as the locals call it? Doubtless the city's impoverished millions envy the conspicuously prosperous few. It probably does not help, either, that cheap guns are smuggled in from Somalia, Kenya's chaotic neighbour. But the main reason criminals have grown so bold is that the police are incompetent. They lack vehicles, computers and detective skills. In the slums where most of Nairobi's people live they are invisible, yet there are always clusters of uniforms protecting the Big Men of the ruling party. Ordinary people rarely give them tip-offs because they fear and distrust them. Last year, 90% of those shot dead in Kenya were shot by the police. Recent assassinations of senior police officers, far from evoking sympathy, have convinced many Kenyans that their supposed guardians are entwined with organised crime.

A recent survey found that more Kenyans had been ordered to pay bribes by the police than by any other organisation. The top police spokesman dismissed the finding as “one-sided”. He said he hated corruption, but added: “What do you expect a police officer to do? He suffers in the rain or the hot sun and goes unappreciated. He guards MPs who get 500,000 shillings monthly, but he earns only 5,000 shillings a month.”

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Europe and the United States

You can be warriors or wimps; or so say the Americans

Aug 8th 2002 | BRUSSELS
From The Economist print edition

The foreign-policy gap between Europeans and Americans is getting bigger again

LAST autumn it all seemed very different. Galvanised by outrage at the attacks on the World Trade Centre, Europeans rushed to align themselves with the United States. Gerhard Schröder, the German chancellor, proclaimed “unlimited solidarity” with America. The editor of France's left-leaning *Le Monde* wrote a front-page editorial headlined “We are all Americans now.” Tony Blair got a standing ovation in Congress in recognition of Britain's staunch support for the United States.

Almost a year on, the mood has changed. On August 5th Mr Schröder, hitting the campaign trail in Hanover, warned the United States against “playing around with war or military action” in Iraq. On the same day, *Le Monde* published another front-page piece, this time lamenting the mutual “incomprehension” between Europe and the United States and the “mood of indifference, indeed of mistrust, towards France and Europe, in the entourage surrounding President Bush.”

Mr Blair remains grimly determined to be the Americans' staunch ally. But British voices raised against participation in an attack on Iraq now range from the incoming Archbishop of Canterbury, to top retired generals and backbench MPs in Mr Blair's own party. An opinion poll for television's Channel 4 in Britain this week showed 52% of Britons against joining an American-led attack and just 34% in favour.

So what has changed? The shock of September 11th has certainly faded much faster in Europe than in America. But even soon after the attacks it was already clear that while Europeans would go along with an assault on Afghanistan, they were sceptical about taking on Iraq. This remains so, both among elites and among the public. Polling by the Pew Research Centre in April showed that 69% of Americans favoured military action against Saddam Hussein, compared with 46% in Britain and France and 34% in Germany and Italy.

Disagreement about Iraq is linked to divergence over Palestine. Simplifying a little, conventional European opinion is that the Middle East will never be stable until the Palestinians have their state, and that to attack Iraq before then risks setting the region on fire. The hawks in Washington see things the other way around. They argue that Iraq destabilises the Middle East because it stokes Palestinian militancy. But talk in Washington of “regime change” in Iraq, Iran or even Saudi Arabia causes huge anxiety in Europe, where people fear where American policy is going to lead them. Henning Riecke, of the

German Council for Foreign Relations in Berlin, says that German opinion seems to be at least as alarmed by “American bullying” as by any threat from Iraq.

Anti-Americanism in Europe is not new. Nor, during the long cold war, were rows across the Atlantic unusual. But what Europeans are now seeing is what they regard as a new kind of “anti-Europeanism” in Washington. Articles by George Will and Charles Krauthammer, two influential American commentators, arguing that European hostility to Israel revealed the continent to be in the grip of rampant anti-Semitism, outraged policymakers in Europe. Scarcely less comforting are jibes from right-wing Republicans about “euro-weenies” or articles like one by Walter Russell Mead, of the Council on Foreign Relations in New York, arguing that “Americans just don't trust Europe's political judgment. Appeasement is its second nature. Europeans have never met a leader—Hitler, Mussolini, Stalin, Qaddafi, Khomeini, Saddam Hussein—they didn't think could be softened up by concessions.”

Have the doves flown the coop?

Of course there are more moderate voices, on both sides of the Atlantic. Colin Powell, America's secretary of state, is hailed in Europe as Washington's voice of reason and multilateralism. France, always regarded as the most anti-American of the big European countries, has a new foreign minister, Dominique de Villepin, who stresses the common values and interests that tie his country to the United States.

But do they, still? Perhaps the most disturbing aspect of the gulf between Europe and America is a sense that basic values and interests are diverging. This idea was crystallised in a recent article by Robert Kagan, an American writer, which has been much circulated and discussed in Brussels. He argues that the EU, being weak, has an interest in a “self-contained world of laws and rules and transnational negotiation and co-operation”, while the United States believes that “international laws and rules are unreliable” and “true security and the promotion of a liberal order still depend on the possession and use of military might.”

Perhaps the most disturbing aspect of the gulf between Europe and America is a sense that basic values and interests are diverging

Many European policymakers think Mr Kagan has defined a real difference of approach, of which Iraq is a perfect example. France and Germany both say that they will support an attack on Iraq only if it is endorsed by the United Nations. Only the British endorse the American argument that Iraq's breach of its ceasefire terms is authority enough.

In the long run, European discomfort with an American war of pre-emption against “rogue states” cannot but widen the Atlantic gap. Does it matter? Mr Kagan argues that America can maintain global security without much help from Europe. And if the Europeans keep squawking? “The day could come, if it has not already, when Americans will no more heed the pronouncements of the EU than they do [those of] ASEAN or the Andean pact.”

Richard Haass, head of policy planning at the American State Department, said something similar to a conference in June of the EU's Institute for Security Studies. The danger was not of some crisis across the Atlantic but of a European “loss of relevance”. Americans felt they had finished the post-war and post-cold war job of making Europe whole and free. To remain influential in America, he said, Europe would have to engage in places such as the Middle East and Asia where America feels its new challenges lie.

Understandably, few Europeans believe that a lone American sheriff can enforce global order. The Europeans are acutely aware of their military weakness. But many argue that the United States may need international law and international consent more than it realises. One senior official in Brussels cites the observation of Henry Kissinger, usually regarded as the high priest of realpolitik, that American power must ultimately rest on a “moral consensus” that the United States is a force for good in the world.

That consensus has already eroded in Europe. When the Pew Centre pollsters asked if America was acting mainly in its own interests in the “war on terrorism”, 80% of French people and 85% of Germans agreed. And so did 73% of Britons.

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Europe's hunt for al-Qaeda

They're on both sides of the pond

Aug 8th 2002
From The Economist print edition

Al-Qaeda's members may be busier in Europe than in America. Catch them, say the Americans. We're trying, say the Europeans, and we know more than you do

EPA

One the Spaniards nabbed

ANTI-TERRORIST services have never before been engaged in so widespread an operation across Europe. Even before September 11th, intelligence people on both sides of the Atlantic had been reckoning that Islamic fundamentalists were just as likely, if not more so, to hit targets in Europe. They still think so. Since September 11th, both American and European intelligence services have been trying to unravel al-Qaeda networks in Europe as diligently as in the United States. Where are the terrorists' European lairs? And how successful have the anti-terror teams been in tracking them down?

Robert Mueller, the FBI's director, has implied that Europe is a better operating base, from al-Qaeda's point of view, than the United States. Anti-terror pundits cite five European features that give terrorists an apparent advantage when they are planning to make attacks in Europe. In professional parlance, they come under the headings of geography; ethnic demography; communications and co-ordination; finance; and availability of targets.

Europe's geography is highly amenable. Terrorists can easily fly, sail, walk, swim or drive into the European Union from a wide range of countries. Muslim communities whose origins are in North Africa, the Balkans and Central Asia are well established across the EU. Once terrorists have entered one of the 15 countries in Europe's Schengen pact, they can travel freely between them, and live comfortably and invisibly among their own.

Al-Qaeda cells almost certainly exist in Britain, France, Germany, Spain, Italy and the Netherlands, to name but a few of the group's favoured countries of residence. As early as 1993, western intelligence services gave warning that teams of Muslim extremists, many of them from Algeria, had infiltrated into the EU, often settling at first in Spain, which some see as the historic birthplace of Islam in Europe. Spanish intelligence now reckons that an important meeting between Mohammed Atta, a leader of the Hamburg-based cell that may have organised the attacks on September 11th, and other Europe-based al-Qaeda cells took place in Tarragona, on Spain's north-east coast, in July last year.

At the other end of the EU, on its borders with the former Yugoslavia, a good thousand mujahideen fighters, many trained by Americans and Iranians to fight the Serbs of Slobodan Milosevic, have been at a loose end—and have been prime targets for recruitment by Islamists. After the Dayton accord that brought peace to most of the region in 1995, a lot found jobs in Islamic humanitarian outfits in Bosnia.

Germany's intelligence service has been to the fore in trying to track down the militants. Even before September 11th it had successfully trailed a veteran of the fighting in Bosnia called Mohammed Haydar Zammar, a 41-year-old former locksmith of Syrian origin with German nationality who is now thought to be in American interrogators' hands. The head of Germany's police force, Manfred Klink, says that “a notable number” of al-Qaeda are still in Germany. Seven suspects were arrested last month in Hamburg; the German police reckon they were trying to replicate Atta's Hamburg cell.

The Europeans are trying harder than before to pool their counter-terror efforts. The Russians, as well as Central Europeans whose governments were in Russia's sway little more than a decade ago, have been helping too. Countries such as Britain, France, Spain, Italy and Germany, with long experience of fighting

terror at home against such opponents as the Basque separatists of ETA, the Irish Republican Army, and violent German and Italian groups in the 1970s and 1980s, have begun to share resources. They point out that between them they have more experience of fighting terrorism than the Americans have.

Europol, the EU's police agency created under the terms of the Maastricht treaty of 1992 to co-ordinate police activity across the continent, is trying to help too, though its scope and powers are still pretty limited. Since September 11th, a 50-strong Europol task-force has been set up to co-ordinate intelligence on al-Qaeda.

The results of all this activity have been mixed. More than 200 al-Qaeda suspects have been picked up in six European countries, most in Spain, Italy, Germany and Britain, but few have been brought to trial, and none for involvement in planning the attacks of September 11th. Some are thought to have been transferred to American custody in Guantanamo Bay.

More than 200 al-Qaeda suspects have been picked up in six European countries

Because Europe's Islamist network is so widespread, it will be hard to unpick. An array of mosques, some of them strongly fundamentalist, offers a fertile source of recruits and cash. No less important—and in contrast to the Americans' stickier system of banking—European financial systems make the transfer of large sums of money possible within hours. When Italian anti-terrorist police in Milan arrested eight al-Qaeda suspects last month, they found forged passports and false documents of good enough quality to ensure the carriers smooth entry into the United States.

Pushtun-speakers, please

Besides, Europe's anti-terrorist teams find it hard to disentangle the complexities of the movements that fall under the rubric of Islamic fundamentalism. Few policemen or intelligence agents speak Urdu, Pushtun or Arabic. It is unlikely that they have infiltrated many, if any, agents into the tight-knit cells of the al-Qaeda family.

According to one European intelligence source, al-Qaeda recruitment in Europe is “thriving and evolving”. New blood is being found among Chechens, Pakistanis and Afghans. Although Albanians are on the whole grateful to America for helping to free their Kosovar brothers from the Serb yoke, Islamic militancy has taken hold among some Albanian émigré groups too.

The crime networks in the Balkans, especially those run by Albanians, who are mostly Muslim, are difficult to break up—and some may operate in tandem with Islamic extremists. A senior policeman working under the auspices of the United Nations in Kosovo says, “Islamic terrorism can walk in the shadow of Islamic-based organised crime. The footprints outside the mosques are often the same.”

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Turkey's reforms

Great—if they really happen

Aug 8th 2002 | ANKARA
From The Economist print edition

Turkey has legislated to meet the EU's conditions for membership talks

AP

Ailing Ecevit astonishes them all

JUST weeks ago scores of students were being rounded up and jailed across Turkey for petitioning their universities to offer courses on the Kurdish language. It will not happen again, if President Ahmet Necdet Sezer approves a raft of sweeping reforms overwhelmingly approved by the parliament last week, in a bid to meet the European Union's preconditions for taking Turkey's bid for membership seriously. Few doubt that Mr Sezer, a committed Europhile, will do so.

The new laws “represent a fundamental change in our concept of identity,” says Volkan Vural, the Turkish diplomat in charge of EU affairs. “They recognise cultural diversity and undertake to respect that diversity.” The 12m or so Kurds will be able to have their young taught Kurdish, though not in state schools, and it will have to be as a subject in itself: the changes do not cover the use of Kurdish as a teaching medium. Broadcasting in Kurdish, now banned as separatist, will be allowed, on non-state stations. Non-Muslim religious foundations will be able to buy property; that might save hundreds of ancient churches now crumbling across Anatolia.

As to other human rights, a provision to ease restrictions on free speech will make it possible to criticise the armed forces without risking jail. Capital punishment, except in times of war, will be scrapped; to the benefit, notably, of the Kurdish rebel leader Abdullah Ocalan, who was sentenced to hang on treason charges in 1999. And Turkey will limit its fiercely guarded sovereignty by allowing the European Court of Human Rights to order retrials in Turkish courts.

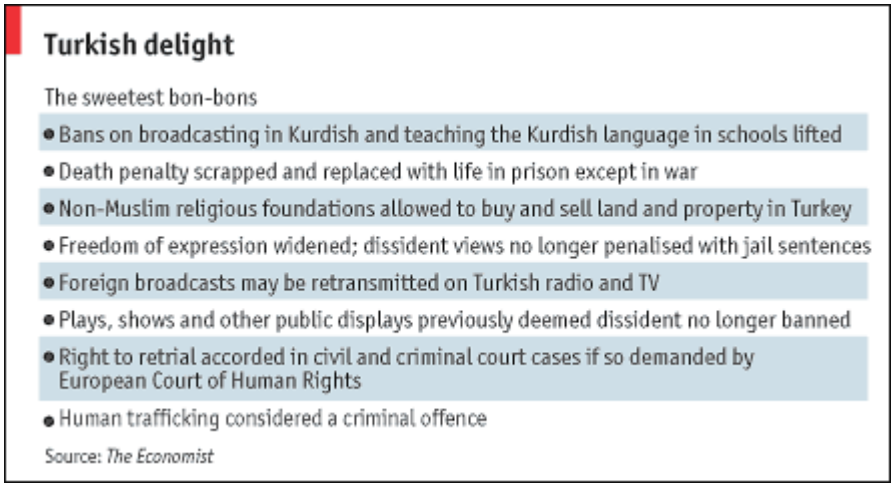
Mr Vural and other technocrats can take credit for drafting most of the new laws and for persuading the politicians that Turkey's dream of joining the EU would never be fulfilled unless the measures were passed into law forthwith. “It's a brilliant move, the ball is back in the EU's court,” marvelled a European diplomat. Almost all Turks and Turkey-watchers share his wonder at the achievement of what days earlier had seemed impossible.

All the more so because the changes were voted through in the midst of a political crisis accelerated by the ill-health of the prime minister, Bulent Ecevit. He has clung to power, defying the advice of doctors, friends and foes alike. But over the past month, his three-party coalition has come unstuck, as several ministers from his own Democratic Left wing of the coalition, including the foreign minister, Ismail Cem, jumped ship to form their own party; and the non-party economics minister, Kemal Dervis, was only narrowly arm-twisted out of doing the same.

Another stab in the back came from his Nationalist Action partners in the coalition, who called for elections to be held on November 3rd, nearly 18 months ahead of schedule. Cynics brushed aside that move as a ploy by the Nationalist leader, Devlet Bahceli, to blackmail the coalition into letting him replace Mr Ecevit. So sure were opposition parties of this that they called Mr Bahceli's seeming bluff by endorsing his call. When he failed to back down, MPs last week found themselves voting in favour of November 3rd, even though many are likely to lose their seats.

The big winner in the elections, most pollsters reckon, will be an ex-mayor of Istanbul, Recep Tayyip Erdogan, and his new Justice and Development or AK party. Though he is called an Islamist, he insists his new party is not religion-based in any way. Tosh, say the pro-secular generals and judiciary. They are

still trying to bar him from running for parliament by slapping him with court cases alleging, on thin evidence, that he was plotting to introduce Islamic rule during his mayoral stint.



Turkish delight

The sweetest bon-bons

- Bans on broadcasting in Kurdish and teaching the Kurdish language in schools lifted
- Death penalty scrapped and replaced with life in prison except in war
- Non-Muslim religious foundations allowed to buy and sell land and property in Turkey
- Freedom of expression widened; dissident views no longer penalised with jail sentences
- Foreign broadcasts may be retransmitted on Turkish radio and TV
- Plays, shows and other public displays previously deemed dissident no longer banned
- Right to retrial accorded in civil and criminal court cases if so demanded by European Court of Human Rights
- Human trafficking considered a criminal offence

Source: *The Economist*

Annoyingly for the anti-Erdogan lobby, AK MPs voted en bloc for the reform package, saying they solidly favoured Turkey's European vocation. It was a smart move: like his rivals, Mr Erdogan is keenly aware that the elections will be waged less on the tired old issues of pro-Islamists against secularists, or nationalists against pro-Kurds, than between backers and foes of EU membership. Polls now consistently show that some 70% of Turks back joining the EU. The main parties, bar Mr Bahceli's, have all leapt on to the EU bandwagon.

Alarmed by this euphoria, EU governments are warning Turkey against raising its hopes too high. The Turks want next December's EU summit in Copenhagen to set a firm date for the start of the membership talks that they feel Turkey now deserves. But EU officials say that, though the new laws look good on paper, the EU would like to see them in practice, not least because they have loopholes galore.

Cyprus is a further, and separate, hurdle. But Turkey could squeeze the Turkish-Cypriot leader, Rauf Denktash, into a deal with the Greek-Cypriots to restore some form of unity to the divided island. If it did so, on top of its acceptance of the other EU demands, the summiteers would find it hard to deny the Turks their wish.

Will it happen? The talks in Cyprus will start again by the end of the month. On September 6th the two sides' leaders are to meet the UN's Kofi Annan. Over the past week Turkey's politicians have for once demonstrated courage. And for once the generals seem to have abstained from meddling. So it is conceivable that the Cyprus hurdle too can at last be cleared.

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German politics

Up and away

Aug 8th 2002 | FRANKFURT
From The Economist print edition

A dogfight over frequent-flyer miles is distracting Germany's politicians

A GENERAL election is near. The economy is wheezing, the public finances a nasty shade of red, America spoiling to strike Iraq. A serious time for German politicians. Yet for well over a week many have been occupied with something much frothier: what they do with frequent-flyer miles from Lufthansa.

For businessmen, bankers and (yes) journalists the answer might be a cheap holiday. No go, if you are a Bundestag member: under its rules, miles earned on political business are to be used for similar trips. *Bild*, a tabloid daily, has had a fine time accusing some MPs of using miles for personal trips. Two prominent politicians have resigned from all their posts: Cem Ozdemir, a rising Green, and Gregor Gysi, a former leader of the Democratic Socialists (PDS), successors of East Germany's communists. He had been economics minister in Berlin's state government.

Incensed, Franz Münterfering of the Social Democrats, the Greens' senior partners in government, has begun legal proceedings against *Bild* and the German Taxpayers' Association, its suspected accomplice. How dare they poke their noses into MPs' travel plans? An assault on press freedom, *Bild* hit back.

All good knockabout stuff? Up to a point: the posh papers are now more bothered about Iraq and the labour market. But the bonus-miles affair may have serious consequences. The Greens' virtuous image has been smudged by Mr Ozdemir's fall and by the revelation that another leading Green flew to Bangkok with his free miles. Since the charismatic Mr Gysi went, one poll has put the PDS's share of the vote at 4%—and a party needs 5% (unless it can win three seats directly) to get into the Bundestag.

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A Czech scandal

Embarrassing for some

Aug 8th 2002 | PRAGUE
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A scandal over corruption and perhaps attempted murder has shocked Czechs

"IT JUST shows what sort of society we now have," said the Communists, with sniffy contempt for the ruling Social Democrats. "A scandal without equal in recent Czech history," opined leaders of the conservative opposition, themselves no strangers to sleaze. The allegation that Karel Srba, a senior foreign-ministry official, had hired a hitman to murder a journalist was certainly shocking. True, Sabina Slonkova (who, in the event, was unharmed) had been digging up dirt for the daily *Mlada fronta Dnes* on deals Mr Srba had helped to cut. But a contract to kill her? This isn't Russia, tut-tutted Czechs. Yet when police arrested Mr Srba they found $1m in cash and a photograph of Miss Slonkova with the word "liquidate" scribbled on its back. He must have been very brazen, very dim or very well set up.

Mr Srba was certainly no ordinary bureaucrat. As well as carrying out run-of-the-mill duties at the foreign ministry, he worked as an agent of Czech military intelligence under the codename Salima, responsible for the assignments of military spies under diplomatic cover. Even before the alleged murder plot, the defence minister, Jaroslav Tvrdik, had his doubts about his integrity. So Mr Tvrdik ordered that agent Salima be removed from his duties. For good measure, he also sacked the military-intelligence chief.

The police are now looking into Mr Srba's possible influence on tenders and property deals, particularly one concerning a building in Moscow owned by the Czech state which had been rented out at a suspiciously low rate. The police will also look again into unexplained assaults on journalists and the shooting of a businessman with close ties to the Czech government. Mr Srba will have to explain how he came by the wads of cash found by the police and how he renovated two farms outside Prague on his paltry state salary.

The affair has apparently not hurt the Social Democrat-headed government re-elected earlier this summer under a new prime minister, Vladimir Spidla. But it has embarrassed Jan Kavan, the outgoing foreign minister, who last month took over as chairman of the UN's General Assembly. There is no suggestion that Mr Kavan connived at murder or corruption. But he had appointed Mr Srba to run an anti-corruption campaign in his ministry and had at first vigorously defended him against the charges that have shaken the nation.

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Charlemagne

Francis Mer, a magician for France

Aug 8th 2002
From The Economist print edition

Can the new man in charge make France's economy fly?

“I CAME to be of service,” says France's new finance minister. The typical insincerity of the professional politician? Perhaps not. For one thing, Francis Mer waited until the age of 62 (he's now 63) before being persuaded last May, apparently by President Jacques Chirac himself, to join the new centre-right government. For another, he cannot be there for the money: last year, as co-chairman of the Arcelor steel group, he earned around $1m; his ministerial salary, even after the 70% pay rise just voted by parliament, will be a rather more modest $154,000.

So just how can this neophyte be of service? The party line (though Mr Mer has never carried any party's card) is that an independent-minded industrialist is exactly the kind of minister the country needs in charge of its money—and indeed, given Mr Mer's full title, its economy and industry, too. The cynical line is that, should the going get tough, he will be an easy scapegoat.

And tough it will surely get. In his campaign for re-election, Mr Chirac was predictably lavish with his promises: income tax to be cut by 5% this year and by a third over five years; lower charges for employers; subsidies to help the young find jobs; more help for the handicapped; a huge recruitment programme for the police and the judiciary; extra cash for the armed forces, which have been slipping too far, notes the president, behind Britain's, let alone America's; new laws for young criminals—and new detention centres to house them. All this will cost money, and it is Mr Mer's job to find it.

The trouble is that today's economic circumstances are not making it easy. The president's promises were based on economic growth averaging 3% a year, ambitious enough given that this year's figure is likely to be about 1.5%, and positively heroic if the “Enron effect” or a war on Iraq or any other unforeseen events take a toll of the world economy. Moreover, the government's budget deficit this year is likely to be around *euro*46 billion ($45 billion), compared with the *euro*30.4 billion disingenuously forecast in the spring by the outgoing Socialist-led government. Already France has had to back away from its promise under the European Union's “growth and stability pact” to balance its public-sector budget by 2004, with Mr Mer reminding his EU colleagues that the pact was “not written in stone”.

Time, therefore, for a cost-cutting re-think by a government that can rely on a massive parliamentary majority? Not quite, or at least not yet. After all, this is politics, and the right remembers that it was partly the breaking of electoral promises in favour of austerity that brought enraged workers on to the streets in 1995, and two years later brought the left back to power. When Mr Mer announced there would have to be “more than symbolic” price rises for household electricity, he was quickly slapped down by his prime minister, Jean-Pierre Raffarin. Keen not to give easy ammunition to the left, Mr Raffarin says that tax cuts for the well-off (only half of France's households are eligible to pay income tax) must be balanced by “decisions to protect vulnerable families”. In other words, spend for the short term and leave Mr Mer to cope with what comes after.

Not that he appears worried, as he stretches his long frame back in his breakfast chair. Stories of “cacophony” within the government, even within his own giant ministry, are dismissed as “pure media invention”. He does, however, admit to being a touch surprised by politics. “The rules of the game in the private sector are simple—you're the boss. Here, the rules aren't so plain. You're not your own boss. You have to persuade people. But it's an intellectual renewal that keeps me young.”

But persuade them to do what? It is one thing to convince his colleagues of the money-raising, EU-placating benefits of a privatisation campaign that will lessen state holdings in some 13 companies, from Air France and Renault to the totemic Electricité de France. But it may be harder to convince certain ministers that “the government cannot be a boss, except of the civil service, and cannot create jobs with

the public sector." After all, in France reliance on an intervening state is as much a rightist reflex as a leftist one: witness Mr Chirac's support for a woolly proposal to give workers extra protection against redundancies.

Peut-il faire boum?

Yet Mr Mer does have some real advantages. He has a record of success in battling against the odds, notably in taking charge of the loss-making, state-owned steel giant, Usinor, in 1986 and then, by a series of mergers and privatisations, turning it over the past 15 years into Arcelor, the world's biggest steelmaker. In the process, he has managed to gain and keep the respect of the trade unions—despite cutting some 70,000 jobs.

Moreover, he is no ideologue: his brand of economic liberalism aims not to minimise the public sector at all costs, but to ensure it is as productive and well-paid as the private. His political friends range from François Bayrou, the pro-European leader of the Union for French Democracy, on the right to Jacques Delors, the former Socialist president of the European Commission, on the left. Mr Mer is certainly a man of the elite; he is a graduate of the Polytechnique, the grandest of France's grandes écoles. Yet he has a refreshingly open mind.

The minister himself likes to cite yet another advantage: he has come into government demanding favours from no one. The implication is that he will thus retain a certain freedom of action and of speech. Hence his willingness to offend colleagues with blunt home-truths. Put all this together and perhaps the minister will yet again confound the doubters by balancing the books, slimming down the state and even managing to reform his own unwieldy ministry of some 180,000 civil servants.

Or perhaps not. What if his prescriptions become too hard for the professional politicians to stomach? Mr Raffarin might have to ask someone to resign. How much easier to sack the man with no party behind him and no favours to call in.

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War with Iraq

Windy soldiers

Aug 8th 2002
From The Economist print edition

The military is decidedly less enthusiastic than the government about the prospect of war with Iraq

Get article background

WITHIN hours of the attacks of September 11th, Tony Blair consulted his political and military advisers and found little dissent from his belief that, at this critical juncture, Britain must show unconditional support for America. As America prepares for its biggest military operation since Vietnam—a war against Iraq—with Britain expected to be the only country at its side, the price of this support is rising.

Officially, the government is insisting that “no decision has been made” and is playing down talk that recently-announced deployments—such as the despatch to the Mediterranean of the *Ark Royal* aircraft carrier—have anything to do with a possible conflict in the Gulf. But, one after another, retired generals—who often speak for their brother officers still in uniform—have emerged to warn Mr Blair that a battle with Saddam Hussein may be harder than anybody thinks.

Lord Bramall, a former chief of defence staff, has said Britain may be dragged into a “very, very messy” war in the Middle East if its forces take part in an assault on Baghdad. He has suggested that the Iraqi regime, once backed into a corner, could unleash some of its deadliest weapons as a last, desperate act. General Sir Michael Rose, the former commander of an international peacekeeping force in Bosnia, has described the idea of a war against Baghdad as “madness”—arguing that without explicit UN approval, such a campaign would lack legitimacy and stoke the fires of anti-western sentiment.

Among serving officers and defence planners, too, there is some unease about how little they have been told about the thinking behind an attack on Iraq—and about the plans, if any exist, for how to manage that country after its leadership has been overthrown. “People want to know more about the rationale and the exit strategy,” says Jonathan Eyal of the Royal United Services Institute.

Plans are being kept so secret because of the point Lord Bramall makes. Whatever America decides to do, speed and surprise are crucial in order to minimise the risk of desperate acts by a doomed Iraqi regime. Yet such secrecy has been noticeably absent in recent British campaigns. When preparing for conflict on a much smaller scale—in Sierra Leone, the Balkans or Northern Ireland—middle-ranking officers have been kept fully briefed about strategy, and invited to offer their own opinions. Officers therefore find the silence over Iraq alien and frustrating.

In any case, given that the Pentagon's arsenal is easily large enough to do the job, how much use can Britain be? Fighting together in Afghanistan has not been a happy experience, say insiders. The British felt that they were being made to fill the gaps left by American military miscalculations during Operation Anaconda last March. The Americans were none too impressed by the failure of the British marines to engage any al-Qaeda fighters during their campaign—part of which was called Operation Snipe. In American English, a snipe-hunt is a wild-goose-chase.

John Pike, director of an American defence think-tank called Globalsecurity.org, predicts the British will contribute at most 5% to the war effort. In the increasingly unlikely event of America's opting for a re-run of the 1991 war, with a vast buildup of, say, 250,000 ground troops, Britain would presumably be asked to contribute one of its two armoured divisions, complete with tanks and artillery. In other words, about half of Britain's capacity for serious warfare would be committed.

If, more plausibly, America opts for a sort of lightning strike against Baghdad with a force of little more than 50,000 troops, Britain may be asked to contribute an expanded version of its air assault brigade—a mixture of helicopters, paratroopers and mobile artillery which is on permanent standby for far-flung war zones. Unfortunately, because of the delays which have plagued the Typhoon or Eurofighter aircraft (a joint effort with Germany, Spain and Italy) Britain will not have a top-of-the-range fighter-bomber in service for another two years, although it is long overdue.

There are some concerns about the quality of British kit. A report last week by the National Audit Office disclosed that many of the tanks used during a big exercise in the Omani desert last autumn had malfunctioned. However, Tim Ripley, a defence writer, believes the report's findings have been exaggerated. “There is no defect or shortage which could not be solved in a matter of the weeks if the government is willing to spend the money.”

But there is a broader problem: the growing transatlantic technology gap. Although Britain has frequently won American plaudits for spending its defence budget more sensibly than most Europeans, and for its willingness to invest in high-tech gadgetry, as American technology leaps further and further ahead, Britain is scrambling to keep up.

Last month, the government announced that it would increase defence spending by £3.5 billion ($5.4 billion) between now and 2006, the biggest rise for 20 years, as a direct response to the challenge posed by terrorism and rogue states. The bulk of this money will go on high-tech electronics and eyes-in-the-sky, in order to reduce what American planners call the “sensor-to-shooter” time lag. But none of this wizardry will be available in time for the expected campaign against Iraq.

Andrew Brookes, an air power analyst at the International Institute for Strategic Studies, says he doubts whether British bombers will be used in the hardest parts of the air campaign against Iraq; it would be too much trouble for the Americans to protect them with “jammers”—electronic warfare aircraft. A more important British role, he says, may be providing air defence for nervous western allies in the region.

Mr Pike believes the most important British contribution is one that nobody has noticed so far: Diego Garcia. The British island can be used not only as a base for heavy long-range bombers, but also as a harbour for ships on which huge quantities of military hardware can be “prepositioned”, ready to steam towards Kuwait at short notice and off-load the kit needed for a quick march to Baghdad.

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The church and war

A spot of turbulence

Aug 8th 2002
From The Economist print edition

The Church of England is against war with Iraq. For now

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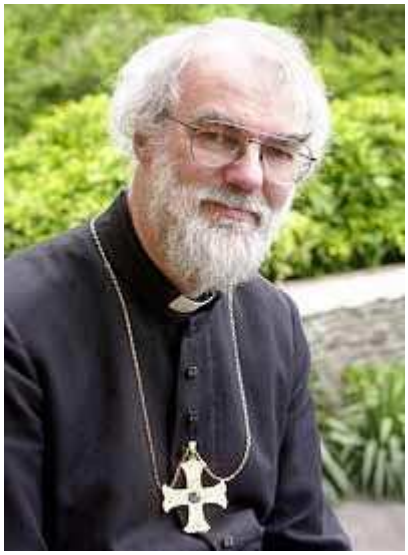

The beard says it all

NO SOONER had Henry II appointed Thomas Becket to the see of Canterbury than he began to wish he hadn't. Tony Blair could well be feeling the same about Rowan Williams. Having confirmed Mr Williams as the new Archbishop of Canterbury only last month, the prime minister already finds himself under attack from this turbulent priest. This week, Mr Williams was among 3,000 signatories of a petition delivered to Downing Street condemning any attack on Iraq that Britain might join as “immoral and illegal”.

In fact, unlike King Henry, Mr Blair cannot be all that surprised. For all his doctrinal orthodoxy and supposed intellectual distinction, the luxuriantly-bearded Mr Williams is a self-styled “hairy leftie” who was arrested in the 1980s during a protest against American nuclear weapons. He describes the war on terrorism as “morally tainted”, while accusing American forces in Afghanistan of “random killing”.

Mr Williams is a veteran peacenik, but what may give Mr Blair a little more concern is the broad consensus among senior figures in the Church of England, not to mention other denominations, that a military campaign to topple Saddam Hussein would not meet the criteria of a “just war”. To find the Church of England so united on anything comes as a bit of a shock. During the Falklands and Gulf wars it split. You have to go back as far as the Suez disaster in 1956 to find such unanimity.

Much hangs on how the bishops have chosen to apply the five conditions that traditionally define whether or not a war is just. As might be expected of a theory adapted 650 years ago from the ideas of Thomas Aquinas intended to give spiritual cover for the warlike ambitions of medieval princes, it is pretty malleable.

For example, one of those conditions is that the war must be sanctioned by a proper authority. For today's idealistic clergy that inevitably means the United Nations. But equally, it could mean the accountable and democratically-elected government of a sovereign state. Another is that of “right intention”—that the motive for fighting is for something better than self-interest. If Mr Blair and Mr Bush believe they would be ridding the world of an evil menace, they would be acting in accord with that principle. And so on. Mr Blair will not change the mind of Mr Williams, but he may yet persuade some of the other bishops that his cause is just.

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CDC Capital Partners

The worst of both worlds

Aug 8th 2002
From The Economist print edition

CDC was to be both an aid agency and an investment fund. Now it's neither

THE Commonwealth Development Corporation, as it once was, had a decent reputation built up over a half-century of helping businesses in developing countries with capital, technology and management. When Labour came to power in 1997, it produced a foggy blueprint for turning what was renamed CDC Capital Partners into a sort of public-private partnership which was to make annual returns of 25%. It installed a team of investment bankers, including Alan Gillespie, formerly of Goldman Sachs, as chief executive, to bring this about.

Now Mr Gillespie is quitting, and the government's scheme has collapsed. Depressed world equity markets scotched any thought of selling CDC shares to the public, and falling appetite for emerging-market investments meant that CDC was stuck with underperforming assets in Africa, Asia and Latin America, such as farms and agri-businesses, which it had to write down on its balance sheet or sell at a loss. Last year its annual returns were minus 10%. As well as losing money, it has alienated developmentalists by investing in such unbucolic areas as telecoms, Internet firms, makers of hiking gear and Canadian airport builders.

In response to a blast of criticism this week from the press and the opposition, Clare Short, secretary of state for development, has refined the government's concept for the rudderless CDC. The new idea is, inevitably, called “partnership funds”.

CDC will remain a government-owned company, and a separate management company will run equity funds specialising in various sectors in Africa and Asia, such as power, small business and infrastructure. Private investors will be invited to join these funds as partners. After five years the management company may be spun off, says Ms Short. The funds will be seeking a net 15-17% return on their investment. “We must show private investors that this is possible, otherwise these countries aren't going to make it.”

Critics argue that the new scheme does not deal with the fundamental issues. Getting those sorts of returns out of those sorts of countries is hard. An organisation whose roots are in the civil service is going to find it difficult to compete with other emerging-market funds. And anyway, if the government wants to help poor countries, shouldn't it be doing stuff that the private sector doesn't already do?

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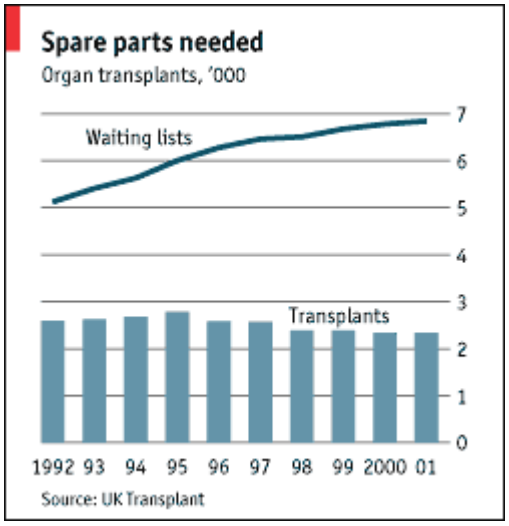
Organ transplants

Donor kebabs

Aug 8th 2002
From The Economist print edition

Will Britons opt in to the idea of opting out?



PAINTING by numbers, a grim picture emerges. More and more Britons are waiting for organ transplants, while the overall number of transplant operations is falling (see chart). A top surgeon at Addenbrooke's Hospital in Cambridge was quoted in the *Times* this week saying that heart patients are dying without being put on the waiting list because there is no chance of them getting an organ.

Part of the problem is that the supply of organs is declining. The recent scandal at Alder Hey hospital in Liverpool (in which it emerged that children's organs had been removed during autopsy and stored without their families' consent, on a previously unimagined scale) seems not to have put potential donors off. Around 70% of Britons say they would be willing to donate organs—though just 16% of them have put their names on the NHS donors' register. Fewer road accidents have also meant fewer deaths of healthy people with organs suitable for transplantation. Motor-cyclists still die at an impressive rate, but they are often too smashed-up for their organs to be of use to anybody else.

At the same time, nasty new diseases are pushing up demand. The spread of hepatitis C, for instance, a usually-incurable blood-borne disease which leads to liver cirrhosis, means that the demand for livers is rocketing. Scientific solutions such as the use of animal organs and stem cells are still a long way off.

So what's the best way forward for the time being? A donation system based on “presumed consent” is one option, currently being advocated by Tom Watson, a Labour MP. This way, individuals would have to register not their consent to a donation (as in the present system) but rather their objection to it—their desire to “opt out”. Relatives would be informed if a dead patient had not “opted out” of organ donation and that, unless they were aware of an unregistered objection or they themselves objected, an organ could be removed for donation. The change would not apply to children under the age of 16.

Mr Watson's bill was introduced in the House of Commons in March, and is now awaiting a second reading. It has the support of some 160 MPs, as well as the British Medical Association. Proponents of the scheme point optimistically to the success of similar initiatives abroad, notably in Spain and Belgium. In 1989, the donor rate in Spain was about 14 per million per year, roughly the same as it is in Britain at the moment. Now, though, the rate in Spain is 33 per million, and as high as 50 per million in some hospitals.

“The idea of revising the organ-donation legislation to an opt-out basis is a very good one,” says Jonathan Glover, director of the Centre of Medical Law and Ethics at King's College, London. “It would save a lot of lives. But it would be important that it was done in a way that was sensitive to the feelings of the grieving family.”

Mr Watson's move has not, however, been greeted with equal enthusiasm in all quarters. The government is likely to see it as a very hot potato indeed, and the British Organ Donation Society thinks it doesn't take sufficient account of families' wishes. The Department of Health, which recently issued a consultation document seeking the views of the medical profession and the general public on “possible ways of increasing donation and transplantation through legal changes”, may yet press for the reform. The department's findings are expected in the autumn.

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Duck-shooting

Quacks in European solidarity

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Okay, so it's August

BRITAIN has long been the point of entry into Europe for all manner of sinister American inventions, from fast food, rock'n'roll and theme parks to rapacious multinational corporations. Now—at a time when tensions are already running dangerously high—another evil of American origin threatens to destabilise diplomatic relations between Britain and the rest of Europe.

Enter *Oxyura jamaicensis*, the Austin Powers of the duck world. He's known as the ruddy duck, but “ruddy” ain't the half of it, baby. Though small and stocky, he is an aggressive suitor who boasts permanently stiff tail feathers and enjoys an energetic and promiscuous sex life.

Brought from America to Britain in the late 1940s, the adaptable waterfowl quickly established itself and started to migrate to the European mainland. Which is where the current problems began. Spanish conservationists complain that ruddy ducks are cross-breeding with their endangered white-headed ducks, destroying the genetic purity of their species.

In order to protect the white-headed ducks, a trial cull of ruddy ducks has been going on at various breeding sites in England and Scotland over the past three years. According to a report recently submitted to the Department for Environment, Food and Rural Affairs, some 2,600 ruddy ducks have been killed. But that still leaves around 3,400 of them doing their thing.

The government is now considering whether to extend the cull nationwide in order to get rid of the remaining ducks. Such an operation—involving hired hitmen equipped with guns, binoculars and power boats—could take a decade to complete. The total cost of wiping out the ruddy duck population would be £5.5m ($8.5m). That works out at about £915 per duck.

Though some British conservation groups support the cull, others, such as Animal Aid, are outraged by what they see as a form of ethnic cleansing. He may be over-sexed, they say, but he's established over here.

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Social housing

Tenants' delight

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The government's plan to build more social housing has left it in a dilemma: what should it do about the right Margaret Thatcher gave tenants to buy their houses?

EVERYBODY wants to get rich quick, so it is not surprising that when Margaret Thatcher decided to give council tenants the right to buy their own houses at a discount of up to 70% of the market value, more than 1.5m did so. The policy was not just popular; it also turned down-at-heel council estates into more stable, mixed-income communities. Even Labour, which initially opposed the policy, supported it in its last two election manifestos.

But now, for the first time, ministers are questioning whether the right to buy has not become a lucrative windfall for a few at the expense of the many in need of low-cost housing. The spur to the rethink is the acute shortage of affordable housing, particularly in London and the south-east. Last year 53,000 houses and flats were sold to their tenants but only 18,000 homes were built. The average receipt for a council house sold in the south-east is £40,000, £25,000 less than the cost to the exchequer of replacing it. The government wants to spend more money on building social housing. But if tenants instantly buy those houses and walk off with a fat capital gain, what's the point?

Ministers' concerns centre on a number of practices, which, though not illegal, appear contrary to the spirit of the legislation. Local-authority tenants who buy at discounts ranging from £22,000 in the north-east to £38,000 in London, are not permitted to resell their properties for three years. But research by the Association of London Government shows that property companies are providing finance to help people buy their houses. The tenant is given a share of the discount (as much as £20,000) to give up the property, which is then promptly relet. The London Borough of Camden has found that half of all recently-bought properties in its area are no longer occupied by the owner.

On the Ocean Estate in Tower Hamlets, tenants are buying their houses and then becoming absentee landlords. By letting single rooms to nurses for £100 a week, they can make up to three times their monthly mortgage payment. What's more, the council, which is purchasing properties in the area as part of a regeneration project, is buying back houses which it had previously sold to tenants, thus losing up to £50,000 per property.

Despite private mutterings by the deputy prime minister, John Prescott, the government has stamped on speculative stories suggesting that the scheme is to be suspended. It fears that a hint of change would set off a surge of applications. Officials say the government is determined to preserve the right to buy while curbing what the housing minister, Lord Rooker, describes as “abuses”.

The right to buy is too popular to be abolished, but it may be constrained. Cutting the discount offered, for instance, would put people off.

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Social enterprise

The Third Way in action

Aug 8th 2002
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A solution to the problem of public-service reform?

Ealing's social entrepreneurs

THE comforting European savour of “social”, plus the sharp American tang of “enterprise”: if the concept of “social enterprise” didn't exist, Tony Blair would have invented it. This hybrid, cuddly form of competition is well-established in other countries, and even in many business schools. It is now being embraced by Mr Blair's government, as a possible analgesic for its pain over public-service reform.

A fine example of what the theologians of Blairism mean by social enterprise is the Furniture Resource Centre (FRC) in Liverpool. It began life in 1988 as a church-funded provider of second-hand furniture, but has evolved into a one-stop provider of furnishings for social landlords, with retail and recycling arms. It employs around 160 people and is chaired by a former boss of Rolls Royce. It receives a bit of cash from grants (plus the tax advantages of charitable status); but Liam Black, its chief executive, bemoans the “deforming influence” of hand-outs, and says the FRC is approaching its aim of being entirely self-funded. The social pay-off is the provision of affordable furniture, plus training for the long-term unemployed.

Another beacon of social entrepreneurship is Ealing Community Transport (ECT), which started out as a small fleet of rickety minibuses, and now runs a recycling empire and other businesses employing more than 300 people. Andy Bond, ECT's managing director, says it is thinking of dabbling in the railways.

Like many New Labour fads, though, social enterprise is fuzzy. The label can accommodate old-fashioned mutuals and co-operatives, charities—many of which, says Nick Wilkie of the National Council for Voluntary Organisations, are becoming savvier at generating income—and even big businesses with a conscience. Social enterprises come in a variety of legal forms; and their social credentials vary. Ed Mayo, of the New Economics Foundation, a think-tank, says that they generally rely on several income strands, but hard-headed social entrepreneurs such as Mr Black would rather they didn't. Others define them as companies that re-invest their profits rather than distributing them; but Microsoft would fulfil that criterion. There is no clear definition.

Despite the fuzziness, though, the government is mustard keen. Reviews in various government departments may yield clearer legal status for social enterprises (of the sort that exists in, for instance, Italy) and perhaps the kind of tax exemptions that not-for-profits enjoy in America. A unit dedicated to social enterprise has been established at the Department of Trade and Industry, whose secretary of state published a social-enterprise strategy at the end of last month. Among other things, it asked the Bank of England to review the sector's access to finance, and proposed various measures to increase the existing role of social enterprise in the provision of public services

Because social enterprise offers both a tool for regeneration and the local activism that recovering ministerial control-freaks say they want to encourage, it also offers a third way between state provision of public services and the full-blooded privatisation that somehow still makes so many Britons (those in public-sector unions, anyway) so cross. One particular species of social enterprise that the government is especially keen on is the Public Interest Company (PIC). These, says Greg Parston of the Office for Public Management, a cheerleading think-tank, would resemble the public benefit corporations that run many American hospitals.

PICs would be debarred from distributing (though not making) profit, and couldn't be taken over by

rapacious capitalists. They would also be able to borrow—which reportedly alarms the Treasury. The test-cases for these new entities are likely to be the free-standing “foundation” hospitals, which Mr Blair and his health secretary want to create. These may reveal whether “social enterprise” can motivate armies of public servants as well as little platoons—and whether the government can deliver meaningful reform without frightening the horses.

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The economy

Not so fast

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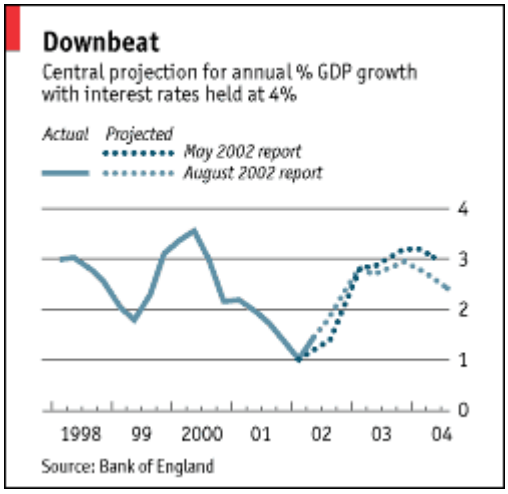
Interest rates will stay on hold or fall



THE recovery is still in place—but it is looking less robust. This is the main message from the Bank of England in its August *Inflation Report*. It means that the base rate looks set to stay at 4%, its lowest for 38 years; and it could even fall further, to a 47-year low.

The change in the Bank's view of Britain's economic prospects since its last quarterly report in May is substantial. Then its central projection, based on interest rates staying at 4%, envisaged a strong recovery which would take growth above 3% by the middle of next year. This in turn would push inflation above the government's target of 2.5% a year by early 2004. Since it takes about two years for interest-rate changes to have their full effect on inflation, that pointed to higher rates before too long. The interest-rate futures market and some City economists were predicting that the base rate would reach 5% by the end of the year.

But in its latest report, the Bank has downgraded its forecasts for both growth and inflation. The villain of the piece is the sharp decline in stockmarkets round the world. Since May, equity values have fallen by about a fifth in Britain, America and the euro-area. This affects consumer spending because households are less wealthy; and it affects business investment by raising the cost of firms' equity capital. The British economy suffers directly as consumers and companies spend less and indirectly because of lower growth in the world economy.

Although stockmarkets have declined so sharply over the past three months the housing market has been more buoyant than expected. According to the Halifax index, house prices rose by 1.9% in July, taking the annual rate of inflation to almost 21%, the highest for 13 years. Rising house prices support consumer spending because households can borrow against their increasing housing wealth. However, the Bank calculates that the support for consumer spending from further gains in the housing market has been more than offset by the impact of such big falls in financial wealth.

The overall picture to emerge is that the recovery will be slower than the Bank had forecast in May (see chart). With less pressure on capacity from rapid growth in demand, the Bank no longer expects inflation to overshoot the 2.5% target by early 2004. In any case, inflation is currently only 1.5%, its lowest for 35 years and considerably less than the Bank had expected in May. Any further decline and Sir Edward George, the Bank's governor, will have to write to Gordon Brown and explain why the target has been missed by more than one percentage point and how the Bank intends to put matters right.

The Bank completed its report before this week's news about manufacturing output, which fell by 5.3% in June, the biggest monthly decline in output since the winter of discontent in 1979. The decline in industrial production, said official statisticians, would be sufficient by itself to clip the first estimate for GDP growth in the second quarter from an above-trend rate of 0.9% to a trend rate of 0.6%. Although much of the decline was clearly exaggerated by people taking holidays during the queen's jubilee celebrations, the latest survey evidence is also pointing to a weakening industrial sector. The purchasing managers' manufacturing index for July fell below 50—indicating recession—for the first time since January.

The forecasts in the *Inflation Report* suggest that the Bank will keep the base rate on hold at 4% for

some time to come. But as fresh signs of economic weakness around the world emerge, financial markets are already starting to price in possible rate cuts. Goldman Sachs, an investment bank, thinks that the base rate will fall to 3.5% by the end of the year. The last time it was this low was at the start of 1955, when Rab Butler was chancellor of the exchequer (and a recently nationalised Bank did his bidding). At the Bank of England, which regained independent control over interest rates in 1997, time's arrow may have farther to go in reverse.

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Marketing to the old

Over 60 and overlooked

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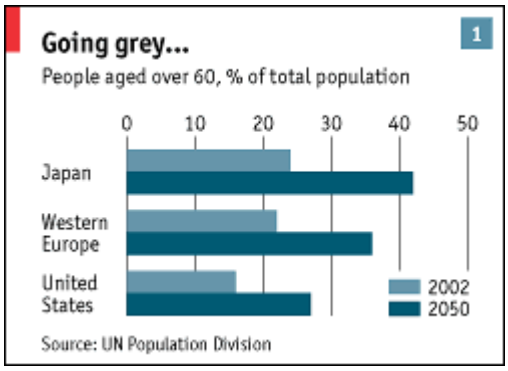
Getty

Everyone knows the world is ageing. So why is business doing so little about it?

IN THE next few decades, the “baby boomers”, the large generation born in the 1950s and 1960s, will grow old. As they do, their sheer numbers and their different attitude to age will create new markets in the world's rich countries. Yet business remains largely obsessed with youth. Many companies seem blind to the fact that their customers are greying. Some have started, with uneven success, to market and advertise to an older population and to design products and services that meet its special needs. Few, though, see the elderly as an exciting group to sell to.

In industrialised countries, the over-60s already account for 20% of the population—compared with less than 12% in 1950. By 2050 that proportion is expected to rise, on average, to a third, reaching over two-fifths in Japan (see chart 1). However, companies still spend 95% of their marketing and advertising budgets on the under-50s. Many businesses have not yet shed the outdated view that the mature market is made up of stingy old-timers set in their ways. Unless you are in the business of prescription drugs or retirement homes, the argument goes, why bother?

One good reason is that the old are wealthier and healthier than ever, and the self-indulgent baby-boomer generation in particular is determined to enjoy itself to the end (see chart 2). According to the United States Census Bureau, the poverty rate among Americans over 65 has dropped from 35% in 1960 to 10.2% today, compared with a fall from 22% to 11.3% for the population as a whole. Senioragency International, a consultancy specialising in marketing to the elderly, says that the over-50s own three-quarters of all financial assets and account for half of all discretionary spending power in developed countries. Over two-thirds of them own their own homes, three-quarters of which are unencumbered by a mortgage. In America, they control four-fifths of the money invested in savings-and-loan associations and own two-thirds of all the shares on the stockmarket.



Not only are the elderly wealthier, they are also healthier and have more time to spend their money. A few decades ago, most people had only a few years to live by the time they retired. Most workers retiring today can look forward to 15-20 years of free time and, thanks to medical advances and healthier living, remain active for

most of it.

Free time and health, combined with relative financial comfort and a greater readiness for self-indulgence, are creating a mature market eager to consume and explore. Over the past two decades, consumption by the over-50s in Europe has increased three times as fast as that by the rest of the population. In industrialised countries, people over 50 buy about half of all new cars and have a weakness for the top end of the range. Even Harley Davidson, the maker of the legendary motorbike, cannot escape the age wave. Long gone are the days of young easy riders: the average age of its customers today is 52.

A marketing challenge

Getting to know long-ignored older customers, however, is hard work for marketing youngsters who are used to lumping all people over the age of 60 into a grey basket of frailty, tweed and stinginess. Advertising's creative types, the people who dream up commercials, are considered ancient by the time they are 35. Finding the right way to communicate with an older audience is a challenge for them.

Many advertisements still caricature older people in order to make younger audiences laugh—as in the soft-drinks advertisement that portrays an adolescent using his grandfather's trembling hand to shake his can. Yet the over-50s make up the largest share of TV audiences, spending 30-40% more time in front of their boxes than the rest of the population.

Jean-Paul Tréguer, the French founder of Senioragency International and author of “50+ Marketing” (Palgrave, 2002), says that not so long ago European company executives would laugh when he tried to convince them that they should pay more attention to older consumers. Now, he says, everybody is talking about them, but no one knows what to do.

America is a few years ahead and has developed a better understanding of the nuances of marketing to the old. The Centre for Mature Consumer Studies at Georgia State University, for example, segments the elderly into four groups—“healthy hermits”, “ailing outgoers”, “healthy indulgers” and “frail reclusives”.

Ken Dychtwald, author of “Age Power: How the 21st Century will be Ruled by the New Old” (Putnam, 1999), prefers to segment them according to stages in their life—tracking people as they become, for example, empty-nesters and grandparents, or (sometimes) single again. Travel companies such as Grandtravel and FamilyHostel have followed that road with packages for older travellers and their grandchildren.

Better segmentation, however, does not mean that marketing departments always get it right. When Gerber, a maker of baby food, realised that many older consumers with dental and stomach problems were buying its products for their own use, it decided to launch a line of similar food called Senior Citizen. Ageing shoppers, however, had no appetite for showing up at the cash register with purees designed for the elderly, and the product was withdrawn.

The most successful advertising campaigns targeted at mature consumers focus instead on active and healthy lifestyles and introduce positive role models. Rejuvenated patients cycling with their grandchildren or practising *tai chi* are far more effective than the stereotype of a frail arthritis sufferer.

Even the youth-obsessed cosmetics industry—Lancome once ditched Isabella Rossellini as its model because she was considered too old at 42—is getting better at portraying women over 50. Since such women make up more than half the market for face cream in developed countries, that is a wise move. Last year L'Oreal recruited the then 57-year-old French actress Catherine Deneuve to promote its hair-care products, while Estée Lauder asked Karen Graham, its star model in the 1970s, to be the face for a new cream for the mature market.

It is not all about image and communication, however. Products and services also need to suit older

consumers. Some companies are catching up with the need to adapt to older users—the food industry in particular. Unilever's margarine products were in decline until it launched its Proactiv spread, which reduces cholesterol. The advertising campaign focused on happy consumers—mostly over 50—attesting to their lower cholesterol levels. According to Jean Marc Liduena of Unilever Bestfoods Europe, the success of Proactiv was responsible for turning round Unilever's margarine division.

Packaging and design are also slowly adapting to the mature market. When Danone, a food and beverage giant, decided to target older consumers with its new calcium-rich Talians mineral water, it made sure that customers would have no problems with the bottle. The label was designed to be clear and readable, while its larger and easy-grip cap is simpler for arthritic hands to open.

Design for all

A similar approach has been adopted by other industries as well. Once it had identified the older population as a promising growth market, NTT DoCoMo, a Japanese telecoms company, launched a new mobile phone. Called Raku-Raku, or “easy-easy”, it has a panel with larger buttons and easier-to-read figures. After its launch last September, over 200,000 units were sold in less than two months.

Products and services adapted to older customers often benefit everybody. Three years ago RATP, the Paris public-transport network, asked its older passengers what they disliked most. The metro map layout came high up their list. So the RATP introduced 150,000 copies of a simplified and more readable map, originally supposed to co-exist with the old one. But its instant success with all passengers—old and young alike—led to the old map being replaced by the revised one.

Mr Tréguer argues that designing for the young excludes the old, while designing for the old includes everybody. With its population of over-60s reaching almost 25%, Japan has been at the forefront of a trend to create so-called “universal-design products”—products that can be used by anyone, regardless of age and ability. In 1999, members from 17 industrial associations created the Kyoyo-Hin foundation—the foundation for universal products—and in 1998 the Japanese government proposed to the International Organisation for Standardisation a new global standard for products and services accessible to people of all ages. New guidelines were published last November.

The approach has worked for Fiskars, an American company: its “soft touch” scissors, which operate like secateurs and are therefore easier to use, but are also modern-looking, have been a hit with people of all ages in America. The same goes for Oxo's arthritis-friendly, contemporary-looking range of cooking utensils.

To help young designers to understand older users' limitations, Age Concern, a British non-profit organisation, has developed a “through other eyes” training programme for retailers. It tries to simulate the physical limitations that older customers experience when shopping. Ford, a car maker, has come up with something called “the third-age suit” to help its design engineers—most of whom are under 40—grasp the needs of ageing drivers. The outfit adds about 30 years to the wearer's age by stiffening the knees, elbows, ankles and wrists. It also adds material at the waist—a rotund stomach affects people's ability to sit easily—and it has gloves that reduce the sense of touch. Ford's lucky designers also have to wear yellow scratched goggles to find out what it is like to have cataracts.

The exercise has been fruitful. Thanks to the third-age suit, the company's cars are now easier for everyone to get into and out of; their seat belts are more comfortable to wear; glare has been reduced; and the controls are more readable and reachable.

Such initiatives, however, remain the exception rather than the rule. Despite the prevalence of grey hair in boardrooms, companies are only just waking up to the impact that shifting demographics will have on consumption. The vast majority of them are ill prepared for a transformation that, as Mr Dychtwald puts it, will turn a world focused on the young into a gerontocracy.

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AOL

New boss, same problems

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Time for an outsider

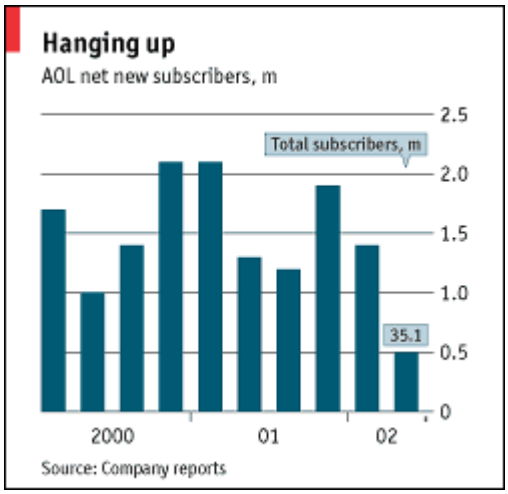
THE naming this week of Jonathan Miller as the new head of AOL delivers to AOL Time Warner's battered Internet division its third boss in four months. Mr Miller replaces Bob Pittman, who was ousted from that job, as well as from his post as chief operating officer at the parent media giant, last month. Mr Pittman himself had been installed at AOL only since April, when Barry Schuler, its former head, was shunted aside. After all the upheaval, AOL may at last experience some management stability. But will this be enough to turn round the troubled business?

One possible benefit of recent management changes is that, for the first time, outsiders will be in charge of sorting out AOL. In theory, this could help to revitalise an in-bred geeky culture that has suffered from complacency and self-importance. The little-known Mr Miller arrives, after a short spell with a private-equity firm, from USA Interactive, Barry Diller's interactive-commerce business. That he is not a Time Warner man could help to soothe the lingering tensions between the new and old media bits of the AOL Time Warner empire. Mr Miller will report directly to Don Logan, the former boss of the Time Inc publishing group, who was elevated last month to run one of the two new overarching divisions at AOL Time Warner under Richard Parsons, its chief executive.

While Steve Case, AOL's founder and former boss, remains group chairman, the two newcomers to the AOL division will be in charge. Yet they face a daunting job. Morale is sagging, particularly since the launch of an SEC investigation into AOL's accounting practices. And the pair will urgently need to bring stability and direction if they are to overcome AOL resentment at the triumph of the Time Warner clan.

In many ways, the appointment of Mr Miller and of Mr Logan, who will spend two days a week at the AOL campus in Virginia, indicates the way in which AOL has changed. What was once primarily a technology company, which grew by selling a one-size-fits-all dial-up service, now faces a market in which demand for such an undifferentiated product seems to be saturated. Subscriber growth has slowed (see chart), and advertising has dried up: e-commerce and ad revenues in the second quarter of 2002 fell by 42% on the same period last year. “When your market has begun to mature,” says Peter Kreisky of the Kreisky Media Consultancy, “you need to segment the market and develop a family of must-have services targeted to different customer groups.” This is where Mr Logan, who knows all about selling subscriptions and advertising, and segmenting the magazine market, comes in.

AOL's other challenge is to persuade its subscribers (it prefers “members”) to part with more of their money, whether through upgrading to a high-speed broadband connection or buying things online. At USA Interactive, which concentrates on selling things genuinely suited to the Internet, such as airline tickets and hotel rooms, Mr Miller ran such businesses as Ticketmaster and Expedia. He may not be an industry heavyweight, nor accustomed to the media glare that now awaits him, but he does have experience in selling stuff interactively. And he knows all about big media conglomerates and the politics that go with them. In the mid-1990s he worked for Viacom, setting up branded channels, such as Nickelodeon and the Paramount Comedy Channel, in Europe.



As for broadband, AOL has been slow to promote such high-speed services. It serves less than 5% of the broadband market in America, but 37% of the dial-up business. Among the many ironies exposed by the collapse of AOL's status within AOL Time

Warner is this: one of the chief motivations for AOL's merger with Time Warner in 2000 was to secure access to the old media group's cable pipes in order to put broadband services at the centre of the multimedia experience.

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German utilities

E.ON, E.OFF

Aug 8th 2002 | FRANKFURT
From The Economist print edition

The controversial takeover of Ruhrgas is held up by a court

SINCE its creation in 2000, E.ON, Germany's biggest energy company, has seemed unstoppable. It has bought abroad, sucking in Powergen, a British electricity firm with interests in the United States. It has bought at home, this week purchasing 25.1% of Thüga, a gas company of which it already owned 62%. It has sold, too, unloading non-utility businesses and promising still more sales in order to concentrate on its gas-and-power core.

Now a court has put a stop to E.ON's progress by blocking its takeover of Ruhrgas, Germany's biggest gas supplier, for the time being. The deal has been controversial from the start. In January Germany's Federal Cartel Office said the deal would harm competition and should be stopped. The economics ministry reversed this decision last month, even though the Monopolies Commission, which advises it in disputed cases, had denounced the merger.

A few days later, though, four energy companies persuaded a court in Düsseldorf to put the merger on hold while it considered their objections. On August 2nd the court said that there were doubts about the legality of the decision to wave the deal through. The deputy minister who approved the merger, Alfred Tacke, had not attended an important hearing; nor had he kept the complainants informed about subsequent discussions with E.ON. A full court case is due to begin in the autumn. On August 6th EnBW, Germany's third-largest utility, also issued a legal challenge to the economics ministry's ruling.

The ministry is cross and puzzled. The procedure, it says, has been the same for 30 years. It doubts that it will be able to hold new hearings, which might satisfy the Düsseldorf judges, before Germany's general election on September 22nd. A delay of at least a couple of months, maybe much more, is looming. The takeover could even fail.

A delay would also affect a related deal, in which E.ON is swapping its 64.6% stake in Degussa, a listed chemicals firm, with RAG, a coal-and-chemicals producer, for RAG's 18.4% stake in Ruhrgas plus *euro*2 billion ($1.9 billion) in cash. The agreement, which depends on the Ruhrgas takeover being approved, is partly a political one. Any deal involving RAG, which receives generous coal subsidies, must be approved by both the federal government and that of its home state, North Rhine-Westphalia. The arrangement will put RAG on a firmer footing and keep Degussa in local hands.

In fact, the whole Ruhrgas saga has had a political pong. The government's sympathy for E.ON's plan was clear from the start. Few were surprised when it cast aside the arguments of both the Cartel Office and the Monopolies Commission. It placed less weight on competition at home than on the creation of a national champion and on security of supply. Germany buys 80% of its gas abroad, 37% of it from Russia.

Granted, the government did attach conditions, which E.ON calls “painful”. The company must invest *euro*6 billion-8 billion in gas production and infrastructure, and will allow competitors more access to its pipelines than is legally required. E.ON will also auction 5% of its gas contracts to rivals, and will have to get rid of some stakes in regional utilities. Yet this is scarcely burdensome, says Jonathan Mirrlees-Black, an analyst at Lehman Brothers. Other European countries have imposed more demanding gas-auction requirements, and the concession on pipeline access is minor.

Might the election affect the outcome? Polls say that a government led by the centre-right may replace the current centre-left/green coalition. The conservatives' candidate for chancellor, Edmund Stoiber, is no more an economic liberal than the incumbent, Gerhard Schröder. Oh, and there's one more thing: the government of Bavaria, the state that Mr Stoiber currently runs, is one of E.ON's shareholders.

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Insuring executives in America

Dangerous & Overpriced

Aug 8th 2002
From The Economist print edition

Managers and directors are becoming a lot more expensive to insure

IT OUGHT to be an ideal business opportunity for insurers in America. Prices for the policy are skyrocketing, fewer risks are being covered and deductibles—the loss threshold at which insurance kicks in—are going up. Yet few insurers will now touch the risks that come with running a company and signing off its accounts. Most worry that the dangers posed by lawsuits against a firm's top brass outweigh the profits they could earn from higher premiums.

Companies shield their executives from such risks by paying so-called directors' and officers' (D&O) insurance, which covers legal fees and settlements when managers are accused of failing in their duties. Since late last year, D&O premiums have risen as much as sevenfold for companies in scandal-prone sectors such as telecoms, technology, energy and financial services. Premiums are likely to rise even further now that the chief executives of publicly traded companies with an annual revenue of more than $1.2 billion must swear that their accounts are accurate and complete by August 14th, a deadline set by the Securities and Exchange Commission.

Although insurers will cover the new oath, they are making D&O contracts much more stringent. An investment bank, for instance, can now end up paying as much as $50m a year for $200m of cover over a high deductible (which itself can exceed $50m). The bank may also have to accept “co-insurance”—ie, pay for up to one-third of losses above the deductible. And insurers are increasingly refusing so-called entity coverage in D&O policies, which covers claims against the company as a whole rather than against individuals.

Even though D&O policies are becoming much tougher, companies are unlikely to stop buying them. Such insurance is not required by law, nor does it protect against outright fraud. But it does cover most other “wrongful acts”, including many of the things that corporate chieftains are being sued for in the current bear market: steep losses, credit downgrades and even bankruptcy filings. No wonder many companies still want D&O—and no wonder most insurers are steering clear.

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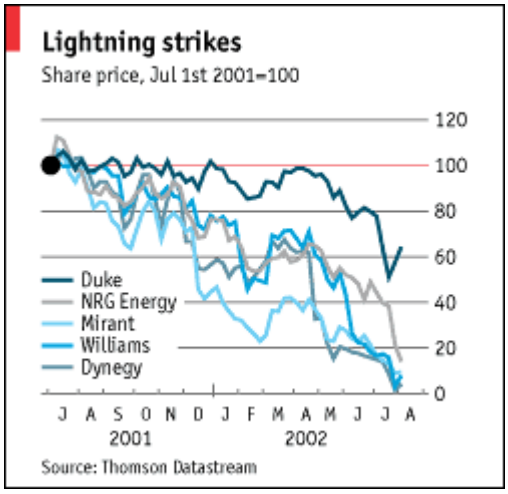
Energy trading

Shocks to the system

Aug 8th 2002 | NEW YORK
From The Economist print edition

Will the lights keep burning in America this summer?



A WICKED mix of debt and deflation is ripping through America's energy-trading industry, leaving blackened balance sheets in its wake. Despite efforts to save themselves, several big energy-trading firms remain close to bankruptcy. Since the ten biggest traders between them own or control more than one-fifth of America's electricity-generating capacity, some fear that candles may soon vanish from supermarket shelves.

At the moment, each piece of good news seems to be accompanied by a wave of bad news. Dynegy and Williams, two of the biggest energy traders, sold just enough assets last week to pull back from the brink of bankruptcy. A few days later, however, Dynegy was hit with a lawsuit filed by its former controller, who claims he was sacked after refusing to manipulate the firm's accounts—a charge that Dynegy denies. Mirant, another big trader, is also under the spotlight. On August 5th the company announced that the SEC is looking into what Mirant's boss, Marce Fuller, called “honest mistakes”. Honest or not, the stockmarket drove Mirant's share price down 16% on the day. It also emerged this week that bribery of foreign government officials has been added to the long list of alleged crimes being investigated at Enron.

In truth, the likelihood of serious power disruptions still seems slim. There has been some evidence of panic in the markets recently: debt specialists report that some banks are shopping whole portfolios of energy loans at knockdown prices. By and large, though, the market has kept its cool. Eschewing mindless destruction, traders are instead ruthlessly sorting the weak from the strong. The weakest firms, such as Dynegy, Williams and NRG Energy, are having their credit lines cut and their lending terms tightened. Stronger firms, such as AEP and Duke Energy, remain relatively unhurt.

All under control, then? Control is too strong a word, says one energy trader: the industry still has big problems. First, the booming 1990s left behind too many traders and marketing men. Williams, Dynegy and El Paso (a slightly less troubled trading firm) have all announced deep cuts to their trading-floor staff. El Paso has cut its trading staff in half. This week Aquila, a Missouri-based trading firm that owns Britain's Midlands Electricity, said it was withdrawing from the business.

More problematically, most of the big firms have insufficiently robust balance sheets to bear the risks of trading energy contracts. Wholesale power prices can be volatile, swinging recently from $10 to $1,000 per megawatt-hour within a single day. The market is illiquid and opaque, which hardly helps foster confidence between trading counterparties. Energy contracts are marked to the market price. As this price falls, traders may demand cash up front. Weakening firms must post collateral if they want to stay in the market.

Given this, it is not surprising that the likes of Dynegy and Williams are struggling to stay in business. Even in healthier days, most of the energy traders only just enjoyed an investment-grade credit rating. Reliant Resources, Mirant, Williams and others are now junk-rated and their debts threaten to overwhelm them. Unlike financial institutions, moreover, energy traders cannot readily get their hands on much cash to finance their trading books. Dynegy, for instance, stretches its definition of cash to include gas in storage. But gas, say energy traders, is not a ready cash substitute: it may have already been pledged to another creditor, for instance.

The result, so far, has been a fire sale. On July 29th Dynegy sold a gas pipeline to MidAmerican Energy, a subsidiary of Warren Buffett's Berkshire Hathaway, for $930m, some $600m less than it had paid for the asset only seven months previously. Williams is selling pipelines, natural-gas production centres and other assets; at one point last week it was so close to bankruptcy that it was shopping around for debtor-in-possession financing. Even stronger trading firms understand the need to shrink their debts. To this end, on July 29th AEP sold Seeboard, a British distributor of gas and electricity, to London Electricity Group. Duke Energy has made deep cuts in its capital-investment plans.

For now, at least, these cuts and asset sales have stayed the execution. Even so, business may continue to drift away from the energy traders. UBS, a Swiss bank, has bought Enron's trading operations. Other banks with big, liquid balance sheets and an undiminished appetite for taking trading risks, such as Morgan Stanley, are expanding their energy-trading business, albeit modestly. Add to this the threat of litigation against the big energy traders, which is unquantifiable but sure to be costly, and it is hard to see them holding on to what remains of their business.

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Business and AIDS

Digging deep

Aug 8th 2002 | JOHANNESBURG
From The Economist print edition

Anglo American offers AIDS drugs to all its employees

AP

But will they take up the offer?

FIRST Debswana, the De Beers diamond-mining company in Botswana, did it. Last year it said that any worker infected with HIV would be counselled and offered anti-retroviral drug treatments at the firm's expense. This week a much bigger mining company, Anglo American, said the same. It employs 90,000 people in southern Africa alone, where HIV rates are the highest in the world. A quarter of those staff are probably infected and will be offered AIDS drugs. AngloGold, a subsidiary, will do the same for its 44,000 workers in southern Africa. Other companies, especially labour-intensive mining houses such as De Beers, will come under pressure from unions—and possibly even from their own accountants—to follow suit.

South Africa's mining industry has been at the front in calculating the economic impact of HIV on business. AngloGold says the virus adds as much as $6 to the roughly $170-180 overall cost of producing an ounce of gold. A sister company, Anglo American Platinum, says it adds $3 for every ounce of South African platinum. Until now, companies judged it better to shoulder these extra costs, and run education and condom campaigns, than to offer expensive AIDS drugs.

Why has that changed? Tony Trahar, Anglo American's chief executive, will not reveal internal estimates of the costs of giving AIDS drugs to his workers, but the company now believes they make financial sense. For one thing, not everyone is expected to take up the offer: only 209 workers and spouses of Debswana's 6,000 employees have done so even though the drugs have been available for more than a year. AngloGold does not expect to roll out its programme before March next year. Furthermore, the prices of many AIDS drugs are dropping fast, and Anglo American is negotiating discounts with various suppliers. Prices would drop further if companies made bulk orders. One worry is that distribution could be as costly as the drugs themselves.

The bottom line may not be Anglo American's only motivation, however. This week's publicity coup comes just ahead of a crucial meeting with government officials about a controversial new mining bill. The government is in the process of deciding how much of the mining industry should be moved from white to black ownership, and how soon. By showing itself to be a socially responsible company that helps its mostly black workforce, Anglo American may hope to discourage radical changes.

Whatever is behind it, Anglo American's decision will have wide implications. Across Africa, 30m people are infected with HIV, but only 30,000 people use AIDS drugs. All large companies must develop anti-AIDS strategies, and some resort to hiring and training two people for every job, assuming that one will die of the disease. Few firms have so far shown much sign of following Anglo's example and paying to keep their own workers healthy. But if the mining giant can show that such a move pays, financially as well as morally, then it will surely not be the last big company to change its mind.

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Face value

The software professor

Aug 8th 2002
From The Economist print edition

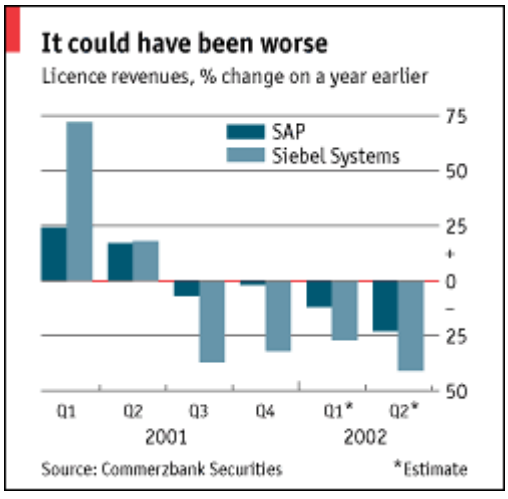
Is Henning Kagermann the right man to lead SAP, Europe's biggest software firm?

HE LOOKS fatherly and often sports a friendly smile. He has the gift of making complexity sound simple, but doesn't pretend to know everything. He is very demanding, but says things like "young people should follow their bliss", and likes listening to rock music, in particular Deep Purple.

Henning Kagermann could be anyone's favourite college professor. But he is likely to be known soon in a different role: as boss of SAP, Europe's largest software firm and the world's leading vendor of enterprise software. Since 1998 he has shared this job with Hasso Plattner, SAP's founder and public face. But Mr Plattner has become much less visible recently and might even retire before his current contract ends in 2004. The impending change raises one key question: can the unassuming Mr Kagermann successfully lead in a business whose winners are mostly known for their brashness?

The answer will determine SAP's future. In contrast to many other technology firms, the issue is not whether the firm can make it through the downturn—although it recently shocked markets by announcing a drop in revenues of 4% to *euro*1.78 billion ($1.63 billion) and a loss of *euro*232m in the second quarter. SAP's greater challenge is to get the better of rivals such as Oracle and Siebel, and perhaps one day even "stick it to Microsoft and IBM", in the words of Mr Kagermann.

Quite an ambition for a man who once aspired to accomplish something entirely different: a big scientific breakthrough, perhaps even a Nobel prize. In a former life, Mr Kagermann was indeed a professor—of theoretical physics at the University of Braunschweig. It was only in 1982, at the age of 35, that he got into software, by replying to a help-wanted ad from SAP, then a little-known start-up.



In explaining this career change, Mr Kagermann also reveals what drives him. Though prudent, he likes to reinvent himself. Becoming an academic was a must for this straight-A student, but toiling in the ivory tower was not his thing. At SAP, too, he went through several incarnations, starting in software development before excelling on the business side. Because of this appetite for challenge, he is seen within SAP as more knowledgeable than Mr Plattner.

Yet Mr Kagermann still appears much the professor he once was, and not just in his demeanour. He is keen to talk about intellectual honesty in business and the need to be able to look a customer in the eye two years after a deal. To him, all business issues demand well-thought-out solutions—just like the complex mathematical problems that he still likes to solve for relaxation in bed. If Jack Welch's management memoir is called "Straight from the Gut", Mr Kagermann's would be entitled "From the Back of the Brain". (Not that he plans to write one; when he retires he intends to take up painting.) He is aware of his cerebral nature, and has admitted that he may need to become more demonstrative, like Mr Plattner. He is trying: at a recent salesforce meeting he donned a Formula One race suit to motivate the troops.

His professorial past shows most when he explains trends in IT. A good illustration of the current shift in enterprise software, he says, is the difference between classical and quantum physics. The former deals with separate systems, just as enterprise software traditionally was about separate applications. In quantum physics, everything is deeply linked. Similarly, with the help of the Internet, applications are growing together, both within companies and across industries. Enterprise software will increasingly be about stringing together entire business processes. Naturally, Mr Kagermann sees SAP as the über-integrator in this real-time economy.

Not too long ago, however, such an ambition would have triggered laughter among industry analysts. In the late 1990s the firm was considered a has-been that, having missed the Internet, was stuck in the old world of enterprise resource planning, or ERP.

Today, SAP can consider itself lucky that it was late jumping on the Internet bandwagon (with an ill-fated investment in Commerce One). If firms spend money on new software these days, they prefer established vendors that offer integrated packages—something that plays to SAP's strengths. What is more, SAP has made some shrewd moves. It opened up its applications, for instance, making it easier for customers to connect them with competing products.

Yet SAP is not about to take over the world. It still has to prove that it can offer the right kinds of products and services for all types of business—from easy-to-use programs for small firms to complex solutions for large companies. It is making some headway on both fronts: it recently released a new software package for smaller companies, called Business One, and on July 31st it announced a deal with Ford, worth at least $40m, to streamline the car maker's distribution of parts.

The main battlefield will, of course, be America. In recent years SAP's performance there has been weak, mainly because its salesforce has focused too much on the largest multinational clients. To improve things, SAP recently sent over its global sales chief, but it is still looking for a new boss for its North American subsidiary. Worse, many American firms still view SAP's products as the software equivalent of German stiffness.

Given this image problem, wouldn't it be better for SAP to have a more dynamic chief executive than Mr Kagermann? Not surprisingly, he doesn't think so. These days, he says, one can't simply sell a big idea without being sure it can be properly implemented. Customers want to understand what works and what doesn't. “Tech talk is out,” he adds, “and competence in.” This sounds self-serving, but Mr Kagermann may be on to something. In these times of Internet hangover and accounting scandals, a competent boss can go a long way.

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Volatile markets

Learning to swing

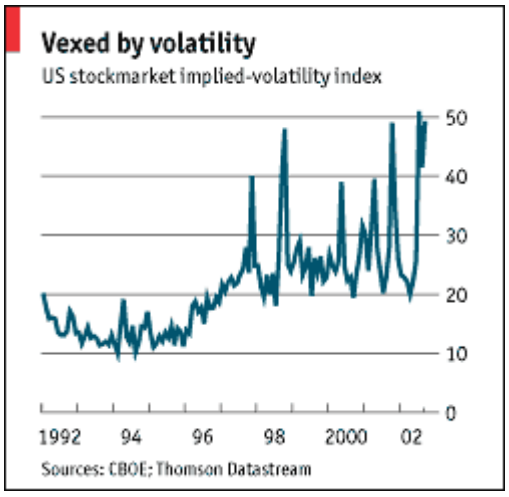
Aug 8th 2002
From The Economist print edition

Markets are moodier than ever, but some investors spy gold in volatility

TAKE a closer look at a boring week in the life of the Dow Jones Industrial Average. Last week saw four days of ever deeper dives: up by 0.7% one day, followed by three days of drops, each taking prices down 2-3% at a go. Then, on the fifth, eureka, a roaring 3% rally. Such moves would once have astounded; these days, they are unremarkable. In Europe, share indices have been diving even deeper, and soaring higher, than in America. Germany's DAX, to pick just one example, last week rose by 7.8% in a single day. Low prices may be concealing a bigger change: Mr Market's mood swings have become more violent.

With good reason, since punters these days have more things than ever to disagree about. Start with the global economy, where worries over a double-dip recession have resurfaced (see article). Add American profits to the mix, as firms race to sign off their accounts by August 14th. The perception and reality of leverage throughout the financial system can magnify even small disagreements over figures.

So it is time to hail the new age of volatility. One widely watched guide, the Chicago Board Options Exchange's VIX index, a measure of traders' expectations of share price gyrations, in July reached levels not seen since the 1987 crash, and shot up again last week. Heightened volatility, however, is not a recent phenomenon. Over the past five years, volatility spikes have become ever more frequent (see chart), from the Asian crisis in 1997 right up to the World Trade Centre attacks. Moreover, it is not just price gyrations that have increased, but the volatility of volatility itself. The markets, it seems, now have an added dimension of risk.



But, as investors have long been told, high returns come only with high risk. Since volatility is the most widely accepted measure of risk, these should be happy times. Not so fast. The risk-return trade-off seemed like a quaint academic notion in the days when equities chalked up annual double-digit returns amid low volatility. Few stock-pickers today expect an imminent return to the days of 15-20% share-price rises, says Michael Schwartz of CIBC Oppenheimer. Yet volatility has risen, just as shares seem to be offering less. The relationship between risk and return now seems upside-down. What's an honest punter to do?

For one, he has been turning to derivatives. Options exchanges are doing a booming business. Volume on the CBOE rose to a record high in July, up by 24% over the previous year. That may signal the return of option-based strategies made popular during the sideways share-price trends of the 1970s. One of these, call-writing (also known as “overwriting” and “buy-writing”), is a way to juice up returns by selling call options (the right to buy a share at a pre-agreed price) on shares in an equity portfolio. This gives the portfolio owner a cash premium, and a boost to returns, in exchange for the chance that he will have to sell his shares if prices rise sharply. That is an appealing prospect if you think that markets will go sideways, down, or even slightly up in the near term.

Investment banks have been touting call-writing strategies to their big clients for years. But these had little appeal during the bull market. Nowadays, every bit of extra yield, or “alpha”, counts. That is especially true for index-tracker funds that aim to enhance returns to eke out even a tiny advantage over a benchmark.

Volatile markets have proved a boon to Volaris Advisors, a New-York firm that advises on managing volatility through call-writing and other fancy derivatives strategies. Karlheinz Muhr, the chairman, reckons that volatility trading could account for up to 20% of America's $10 trillion equity market. He sees volatility as “a new asset class” waiting to be harvested through such call-writing programmes and collar (combined put and call) strategies.

Small investors on both sides of the Atlantic are also acquiring new tools to deal with increased volatility. In America, single stock futures will return in the autumn, offering a new, if more leveraged, way of protecting individual bets. Short mutual funds are giving investors a way to exploit market falls. In Britain, spread-betting firms are enjoying big volumes, as private punters ride the wild swings tax-free.

To be sure, volatility is not good for everyone. Convertible bonds, for example, should now be an attractive bet, since the prospect of converting a bond to equity is all the more valuable when shares are gyrating. Yet issuance of convertibles fell by 11% this year, showing that volatility reflects more deep-seated questions of credit quality and transparency.

Whatever next? Volatility analysts, volatility salesmen, and derivatives based on the volatility of volatility? Hurry while stocks last.

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Economic cycles

Will there be a double dip?

Aug 8th 2002
From The Economist print edition

America may be set for a "double-dip" recession. It wouldn't be the first time.

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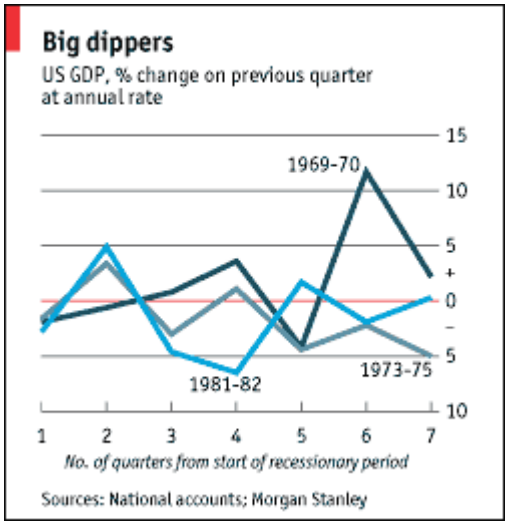

CAPITALISM is ever prone to cycles. Back in 1837, Lord Overstone, a British economist, described the economy's "established cycle" from a "state of quiescence" through "growing confidence...overtrading, convulsion, distress" finally "ending again in quiescence". Over 150 years later, his description remains apt. But what if some parts of the economy grow in confidence prematurely, before the economy as a whole has returned to quiescence? Lord Overstone had no term for it. Today's market watchers do: "the double dip".

Double-dippers, such as Stephen Roach of Morgan Stanley, believe the springtime recovery was a false start—the economy will contract again before a sustainable recovery begins. They have history on their side. Five out of the past six recessions featured more than one dip; the long recessions of 1973-75 and 1981-82 turned out to be triple-dippers. Why should the current cycle escape with just one?

Lord Overstone could describe the vicissitudes of commerce as an "established cycle" only because the economy's vast ensemble of markets and industries keep roughly in time—they rise and fall in concert. A double dip occurs when one section of the ensemble, usually inventories, gets ahead of the score. Inventories fall fast in a downturn: why refill the warehouse when you're worried about clearing the shop shelves? But they also bounce back early—no manager wants to forgo sales because his shelves are empty. The hasty rebuilding of inventories will pull the economy out of its initial dip, but if the rest of the economy has yet to hit bottom, the reprieve will be temporary. Inventory demand will peter out just as the final demand for goods has what Mr Roach calls a "relapse". Inventories have to be cut: the economy dips for a second or third time.

Have inventory managers got their timing wrong again? Certainly, the current cycle is peculiarly difficult to read. Most post-war cycles follow a clear rhythm conducted by the Federal Reserve. Recessions begin when the Fed raises interest rates to kill inflation, subduing labour, housing, and stock markets at the same time. But Alan Greenspan, the Fed chairman, did not orchestrate the last contraction, and the cycle is not so tightly synchronised. Business investment collapsed but Americans mostly kept their jobs, and what they lost in the stockmarket, they partly regained in a property boom. Until now the American consumer has kept up a merry jig in counterpoint to the sombre tempo of the rest of the world's economy.

Last year's recession, Mr Roach argues, was a mild leeching, not a full purging of the excesses of the 1990s. Household saving rates are still too low, house prices too high, and the current-account deficit too wide. A double dip gives a second chance to "correct" these imbalances. It may take another spell of convulsion and distress before America's defiant spendthrifts become the "quiescent" savers Lord Overstone and Mr Roach would like to see.

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American equity markets

Goodbye to the little guy

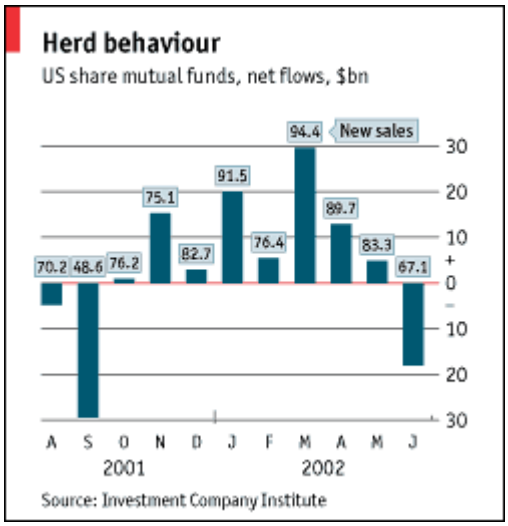
Aug 8th 2002 | NEW YORK
From The Economist print edition

There are signs that small investors are dumping mutual funds. Does it matter?

THROUGH the long bull market, individuals learned that the most effective way to make money was to buy more stocks. Until the final manic phase when day-trading took off, their favoured way of doing so was through mutual funds. The process was often perceived to be a virtuous circle, with new money boosting share prices, which brought in fresh money which further boosted share prices, and so on. There is a pervasive fear that the opposite could be unfolding now: a downward spiral, with declines in share prices prompting waves of redemptions and further price declines. It is a seductive theory, but questionable.

As the bear market began in March 2000, the first to leave, often not by choice, were the last to arrive. Heavily margined day-traders were quickly wiped out; unleveraged day-traders had only a bit more time to discover how little gratification there is in losing money. Brokerage firms catering to this crowd disappeared. Fund investors were noticeably more patient, contributing more money every month in 2000 and, overall, in 2001 as well. But there is increasing evidence that finally, more than two years after the Nasdaq peaked, their patience is wearing thin.

In June, investors took $18 billion more out of equity funds than they put in (see chart). It would not be a surprise if the number in July topped the record $29 billion removed in a panic last September, immediately after the World Trade Centre attack. August is unlikely to be much better than July, and could be far worse. Barring a huge shift in sentiment, 2002 is likely to be the first year since 1988 of net redemptions. Add in rumours of heavy selling in the American markets by large investors in the Middle East and suddenly, there appears to be a shortage of buyers on Wall Street. Can that be anything but bad for investment in America?



Certainly it will not be good for brokerage and asset-management firms. The prospect of losing assets will have investment implications. If forced to dump stocks to raise cash for departing investors, these firms may choose between selling off the companies that are particularly risky, or the ones that are most liquid. “We do not know what sort of change in strategy it would induce,” says Henry Kaufman, an economist and investment manager, but if the redemptions continue, the liquidity of positions will inevitably become a greater consideration. That will be bad news for the less mature companies that need capital most, and indeed for an economy that thrives on providing financing at high risk for high reward.

The pressure on investors to sell may only increase in the months ahead. As an experiment, Merrill Lynch calculated the break-even point for a person who began investing on a monthly basis in 1990, when America's interest in funds exploded. Returns were assumed to be the same as those of the overall market. Break-even would be 776 on the broad Standard & Poor's composite index, a level the market fell perilously close to in recent weeks. “Once you fall below that level, the risk appetite will change,” says David Bowers, at Merrill Lynch. Over and above lost profits, the losses will start to eat into capital. Not only may that be seen as particularly threatening; once profits are lost, one of the main reasons to avoid selling a fund disappears—the need to pay capital gains tax. (In fact there is an incentive to take the loss and set it off against other taxable gains.)

But there are contrary forces at work. American fund investors have generally been a stubborn lot, perhaps because those with truly long horizons have historically done well. Information dating back to 1943 collected by the Investment Company Institute, a trade group, shows that periods when redemptions of fund shares exceeded purchases have been short-lived. Indeed, in many bear markets, notably those of 1966, 1969, 1973-74, 1977 and 1981, redemptions actually slowed (though sales of additional fund shares slowed even more), says Avi Nachmany of Strategic Insight, a consultancy.

Odder still, managers of mutual-fund portfolios have not responded to redemptions as one might assume: by selling out positions. There were three periods over the past two years with net redemptions. In two of those periods, March 2001 and June 2002, portfolio managers were heavy buyers of equities, according to Strategic Insight, and in the third, last September, their sales of shares accounted for less than one-third of redemptions. There are two reasons why this is possible: first, funds typically hold a reserve of 5% cash; second, automatic payments through retirement accounts mean there is some comfort that more cash is on the way.

However, this explains only why they *can* buy, not why they would. For that, a good reason is that the declining share prices that spook investors are perceived by portfolio managers in the same way as a sale in a store. “Historically,” says Steve Leuthold, a fund manager and market analyst in Minnesota, “the public has done the wrong thing both at stock-market peaks and stock-market bottoms.”

Indeed the strongest months for fund investment were the first three months of 2000, just as the market crested. A previous record in 1969 occurred when the last bull market was peaking. There were heavy redemptions in 1981, just as the current bull market began, and there were huge net redemptions following the crash of 1987, which with hindsight was a wonderful time to buy. It is tempting to believe that share prices are set by mass enthusiasm or despair. Yet clearly this liquidity-based theory is flawed, at least in a market as broad and deep as America's. On the other hand, when the masses are enthusiastic or despairing, it seems like a good time to be the reverse. Over time, the absent punter has proved a good omen.

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Swiss corporate raiders

The rise and fall of Martin Ebner

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How bad is the crisis at Switzerland's BZ Group?

Reuters

Mr Ebner preaches shareholder value

ZURICH is buzzing with rumours about Martin Ebner's troubles. How indebted is his investment empire, BZ Group? What did ZKB, Zurich's regional bank, pay him for a controlling stake in his four “Vision” investment funds? What are the conditions of the one-year moratorium that Mr Ebner's creditors are thought to have agreed upon? And what are BZ Group's undisclosed equity investments?

Kurt Schiltknecht, Mr Ebner's right-hand man, has been bombarded with such questions since BZ Group announced on July 31st that it had sold control of the Vision funds and reduced its sizeable stakes in several of Switzerland's blue-chip companies. But Mr Schiltknecht remains adamantly mum. BZ Group is a private company and under no obligation to disclose information on its financial health.

Even so, some argue that the crisis at BZ Group is such that it is in the public's interest to know more. Usually reliable sources say that the group's debts are SFr6 billion-SFr10 billion ($4 billion-$6.6 billion) and the current value of its investment portfolio is estimated to be about half its debts. The moratorium by creditors—which are said to include Credit Suisse, HSBC, WestLB, Landesbank Baden-Württemberg, Deutsche Bank and an Austrian bank, as well as ZKB—is presumed to have removed immediate pressure on Mr Ebner to repay SFr3 billion. But his large portfolio of derivatives raises more concerns. BZ group has issued put options on shares in ailing companies such as Zurich Financial Services and Balôise, two large Swiss insurers (if their share price falls below a certain point, BZ must pay the difference).

Mr Ebner admits that the group underestimated the length and severity of the bear market. In a rare appearance on television on Sunday night, he also conceded that his investments were not diversified enough. BZ Group acquired large stakes in blue chips: nearly 10% of ABB, an engineering group and just under 5% of Credit Suisse Group, a financial-services conglomerate. ABB and Credit Suisse have lost two-thirds of their price in the past year.

Still, concentration does not appear to be the main problem with BZ Group. Mr Ebner borrowed funds to finance some of his equity investments and, when he started losing money lately, he increased his leverage. He got away with similar manoeuvres in the past—BZ Group was fragile when equity markets were in turmoil at the end of the 1980s and in 1998. Yet this time the bear market is far worse and Mr Ebner is in deeper trouble.

Because of concerns about BZ Group, the shares of companies in its portfolio are doing extra badly. Hedge funds have begun to short them. On Monday, ABB dropped 13% and Credit Suisse Group fell almost one-tenth. The more they go down, the more Mr Ebner needs to sell.

The rumours are spiced with *Schadenfreude*: Switzerland's business elite never much liked the maverick investor. Mr Ebner is a self-made billionaire who took them on in the marketplace and at annual meetings. He attacked the corporate strategy and conflicts of interest within the Oeri and the Hoffmann families, owners of the majority of Roche, a pharmaceutical company, of which BZ Group owns a large minority stake. Mr Ebner is also close to Christoph Blocher, a right-wing politician, dubbed the “Ebner of politics”, equally unloved by Switzerland's great and good. And he avoided paying taxes like a good Zurich burgher by moving to nearby Wilen in the next canton, where taxes are lower.

Yet even his detractors admit that he shook up corporate Switzerland. In the early 1990s, for instance, armed with a quarter of the shares of the powerful Union Bank of Switzerland, he called for the sacking of Robert Studer, its then chairman, and demanded the restructuring of the bank's retail business and a higher return on equity. UBS later merged defensively with the Swiss Bank Corporation and then made some of the requested changes. But by then Mr Ebner had moved on to his next target, Credit Suisse.

Mr Ebner has not exactly practised what he preached. Despite his crusades for corporate transparency, BZ group itself is an opaque holding company. He has styled himself the champion of shareholders' interests, yet his own shareholders—unless they got out in time—would have been better off investing in an index tracker. He campaigned against individual families exercising too much power through their controlling stakes in companies thereby neglecting smaller investors' interest, yet he and his wife Rosemarie exercise a tight grip on BZ Group. Exit strategy is everything, and the canny Mr Ebner has often sprung a surprise. But, next time, he will have to show the strategy to his bankers first.

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European banks

It's hell out there

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From The Economist print edition

Bad debt provisions are leaping at European banks. Is there worse to come?

CONDITIONS are as awful as any since the second world war, said Albrecht Schmidt, head of HypoVereinsbank (HVB), Germany's second biggest bank. The most striking feature of this month's earnings announcements from European banks is that bad debt provisions—the amount of money that they set aside to cover the dud loans that they may have to write off—have soared.

Allianz, the German insurer, issued a profits warning because of high levels of bad loans at its subsidiary, Dresdner Bank, and Deutsche Bank charged *euro*511m ($469m) for bad debts against its profits, twice last year's figure. Bad debt provisions in the first half of the year at Britain's Barclays Bank rose by 43% and at BNP Paribas's French retail division by 55%.

That is bad news for shareholders, who will watch profits and share prices fall for a while as credit quality continues to decline. But banks in most parts of Europe are well-equipped to withstand a rise in bad debts: they have a fatter cushion of profits and capital to absorb them than ever before. As the last serious recession set in, in the early 1990s, returns on equity as poor as 5% were not uncommon at banks in Europe. Now, most aspire to three times that or more. The quantity of capital that they have salted away to sustain themselves through bad times is not just much higher but in many cases a multiple of what they had to rely on back then, says Sam Theodore at Moody's, a credit-rating agency.

Another source of comfort is that banks seem to have learnt that lending wildly to property developers always ends in disaster. Lending into a commercial-property bubble was to blame for many of banks' bad loans in the early 1990s. This time around there has been no comparable boom, with the exception, perhaps, of Ireland and the Netherlands. Banks have hung back somewhat and let other lenders, such as insurance companies and specialist funds, venture into commercial property alongside them.

So far, says Alison Le Bras, a banking analyst at Fitch, a credit-rating agency, bad-debt problems at European banks have arisen mostly because of international exposures—to Argentina, Enron and WorldCom. At home, credit quality has mostly held up. If European economies continue to grow, banks' domestic-loan portfolios should stay relatively healthy.

Still, according to one investment bank in London, hedge funds have of late turned their attention away from the humbled technology sector and are shorting bank stocks. Some banks, to be sure, are more vulnerable than others. Privately owned German banks have been struggling for years with low profitability because of a weak economy and because their market is dominated by savings banks. Their capital ratios are weak: Commerzbank and HVB have tier-one capital equivalent to 6% (of risk-based assets) and 6.2%, and Dresdner Bank's is just 5.5%. IntesaBCI, Italy's largest bank, with a similarly low tier-one capital ratio of 6.2%, has had to write off loans to Swissair, Argentina, Enron and WorldCom.

What could badly damage the weakest of Europe's banks is a further deterioration in the credit of large European telecom companies that over-borrowed to invest in 3G mobile licences. A nightmare, especially for Spanish banks, would be for Brazil to follow Argentina into default.

In the past ten years or so, banks have found ways to reduce their exposure to credit. To begin with, according to the Bank for International Settlements (BIS) in Basel, the capital markets, as well as banks, provided much of the financing for technology and telecoms companies in the late 1990s. Banks have securitised chunks of loans: the market for asset-backed securities in Europe has grown ten-fold to over $250 billion in the past decade, according to the BIS. They have also sold exposures on the secondary-loan market, bought portfolio insurance from insurers and sold credit risk through collateralised debt obligations and credit derivatives.

On the whole, says Michael Foot, head of banking supervision at Britain's Financial Services Authority, these techniques should mean that credit risk is parcelled out more evenly. He adds, though, that the transfer of credit risk creates something of a mystery: where might the bad debts that the banks have passed on resurface? Ominously, regulators reckon that it was insurers, searching for higher yields, who took on the biggest slice of what the banks didn't want.

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About sponsorship

Japan's postal savings

Big bender

Aug 8th 2002 | TOKYO
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Glacial moves in the reform of the postal savings giant

BANKERS call it the Hundred Years War. But could the battle to reform Japan's powerful postal savings and insurance system be nearing an end? On August 1st, Junichiro Koizumi, the prime minister, vowed again to privatise the post office, a reform at the top of his agenda. On August 5th, Naoki Tanaka, who heads Mr Koizumi's private advisory panel on postal reform, came up with sweeping proposals that include full privatisation, or even phasing out the post office's savings and insurance operations and shifting them to private institutions. There were other less potent suggestions, such as transferring its operations to a special public corporation.

The panel hopes to finalise plans by the end of August. But reform will not be easy. With ¥240 trillion ($2 trillion) of deposits and another ¥125 trillion in insurance policies, the post office is the world's biggest financial institution, controlling a quarter of Japan's household financial assets. It has enormous political clout. Most of its 271,000 employees spread across 24,700 branches are staunch supporters of the ruling Liberal Democratic Party (LDP), for which they collect votes. Postal savings and insurance also provide a shadow budget for the government by buying wads of *zaito* bonds, which fund the finance ministry's fiscal investment and loan programme, used to build empty roads and bridges.

The Democratic Party of Japan (DPJ) calculates that between 1990 and 2001 the assets of private financial institutions increased by ¥84 trillion. By contrast, the combined assets of the postal savings and insurance system and public pensions grew by ¥315 trillion (thanks largely to the post office), of which 80% was invested in government bonds, regional bonds and *zaito* bonds.

These investments skew the markets. For example, even though public debt is now 140% of GDP, government bond prices are not falling. Furthermore, only 5% of these funds find their way out of Japan, compared with 50% of funds in the private sector: that keeps the yen too strong and weakens the competitive power of many local industries, says Yoshito Sengoku, a politician in the DPJ. Reform, he argues, would channel more household money into private funds that can invest in foreign securities.

The post office affects policy in other ways. Depositors are flocking to its government-guaranteed non interest-bearing “settlement” accounts, which unlike other accounts are not capped at ¥10m. That is because the government is due to lift its guarantee on bank deposits of over ¥10m next April. This has prompted the Financial Services Agency (FSA) to come up with its latest fudge to delay deposit insurance reform. It bears a striking resemblance to the post office's interest-free accounts.

Still, there was progress of a sort last month when the Diet passed a bill that will turn the post office into an “independent” public company next April. This, insists Mr Koizumi, is a stepping stone to privatisation. But banks and life insurers, who want to compete with the post office on even terms, are not satisfied.

The post office still enjoys exemptions from taxes or deposit insurance premiums, which saves it ¥400 billion a year. Moreover, although the new postal corporation will be inspected by the FSA from next April, the Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPHPT)—to which the post office currently belongs—will decide what to do with the inspection results. MPHPT says this is natural since the post office, unlike its competitors, is there to provide fair and universal financial services for all.

Privatisation will also take time: postal savings and insurance have to be scaled down first. Even splitting postal savings into 20 pieces would create big institutions that would dwarf many regional banks. The government is meeting resistance from the LDP old guard. Mr Koizumi's advisers are said to be deadlocked. History offers no comfort either. It took the government 33 years to privatise its telecoms

company, now called NTT.

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Aid to Malawi

Stick beats carrot

Aug 8th 2002 | LILONGWE
From The Economist print edition

Who suffers most when donors punish Malawi's jetset?

Reuters

Hunger for that executive jet

ARE aid donors being callous or clever in Malawi, one of the poorest countries in the world? Just as it faces acute food shortages and appeals for emergency aid for 3m people, foreign donors have pulled the plug on most other types of assistance. Though food help is rolling in, the IMF is refusing to disburse a $55m loan; Britain has suspended its budgetary help; Denmark shut its embassy in January and scrapped all its aid projects. Now the EU has told Malawi to refund *euro*8m ($8m) given as a road-building grant but "diverted" by the government. Unless the money is returned by August 30th, five years of further EU help worth *euro*345m will be in jeopardy.

Donors are exasperated with graft, economic negligence, over-borrowing and undemocratic behaviour by Malawi's elected government. With good reason. Ministers and civil servants jet between their offices in Lilongwe and the commercial capital, Blantyre; they are fonder of foreign travel, country retreats, perks and workshops than of reducing poverty. The country's anti-corruption unit said this week that senior officials should go on trial for selling all 160,000 tons of maize from the national grain reserve two years ago, despite warnings of impending famine. Aid workers in Lilongwe suspect well-connected traders of hoarding the grain and selling it at a premium to hungry Malawians. In response, the president, Bakili Muluzi, promptly sacked Leonard Mangulama, his poverty-alleviation minister, on August 6th on suspicion of snapping up grain himself on the cheap.

Since aid is about a third of the government's revenue, concerted foreign pressure is likely to tell, at least on senior politicians. And it should set an example to other poor but corrupt countries in the region. Most foreign aid, aside from emergency food, has been stopped for Zimbabwe. Swaziland may be next: donors have learned that the government is spending some $55m on a presidential jet, while appealing for foreign help to feed its hungry.

But turning off the tap may not be the answer. Many diplomats believe carrots work much better than sticks: "It is impossible to make governments meet conditions other than by rewarding good behaviour," suggests one aid specialist. Emergency food-aid is never tied to good government behaviour. If it were, Zimbabwe's hungry would become a great deal hungrier yet.

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Economics focus

Argentina's bottomless pit

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Argentina's assorted recent leaders have made an awful situation even worse. What is the answer?

THE economic crisis that struck Argentina last year has deepened into one of the worst and most intractable such calamities in living memory. Economists have not been slow to offer accounts of what went wrong, but there is as yet no settled version. That makes it difficult to recommend solutions. Meanwhile, things keep getting worse. The economy is shrinking, inflation is surging, and the country's banking system is in ruins. Some economists believe—and this is all too plausible—that hyperinflation may have to finish its demolition work before rebuilding can begin. What a prospect. Is there no other way?

Lately, support has been growing for dollarisation—that is, for the formal adoption of the dollar as the country's currency. To some this will seem surprising. Many economists blame Argentina's ill-fated currency-board system for the present mess. This tied Argentina's peso one to one against the dollar. As the dollar appreciated on world markets, the peso appreciated too. This made Argentina's economy uncompetitive, slowing growth and preparing the way, it is argued, for the collapse of 2001. Surely, if this is so, to go for full dollarisation—more binding than before, in terms of fixity to the dollar—would be to lock Argentina back into the arrangement that led it here.

Not necessarily. The orthodox account of Argentina's failure, which lays such emphasis on the peso's overvaluation, is questionable. Other factors, notably the government's failure to run a big budget surplus during the economy's long boom, were probably more important. In any case, if Argentina dollarised now, it would not be at one to one: today's “market rate” (which is subject in fact to various controls and distortions) is more like four to one. Whatever the exact number, Argentina could dollarise at a competitive rate, which would help growth.

But complications arise, to put it mildly. One concerns bank assets and liabilities, which were denominated in dollars before the collapse and subsequently “pesified” (switched into pesos). They are now in semi-suspended animation because of paralysis in the banking system.

One leading advocate of dollarisation, Kurt Schuler*, an economist with the Joint Economic Committee of Congress in Washington, DC, argues that bank deposits should be reconverted into dollars in the original amount. The idea is to start reversing the destruction of property rights which pesification inflicted on the country. The problem is that if the banks' deposit liabilities are to be reset in that way, and their loan assets are not, the banks will be deeply insolvent. Whereas if the loans are reconverted in the same way as deposits, it is the banks' debtors who will be insolvent—in which case the banks go bust anyway.

Deep and dark

Mr Schuler favours a compromise: he reckons that the banks' debtors should be asked to surrender some of the gains they were handed when their dollar debts were turned into pesos and then devalued. This would help to narrow the gap between the banks' dollarised assets and liabilities. Morally, the debtors should pay something: you could say their windfall was stolen from depositors and bank shareholders. The willingness of debtors to pay such reparations is another matter.

Another possibility (to be used alongside reconversion) would be to leave a partial freeze on deposits in place—with arrangements to secure its removal over time—in order to stop the mismatch between deposits and loans causing a run on the banks. But the existing freeze is bitterly resented. Mr Schuler's plan has many things to recommend it, but financial simplicity and instant political appeal are not among

them.

Another recent paper, by Augusto de la Torre of the World Bank and others, agrees with Mr Schuler about the basic overriding merit of dollarisation—namely, that it takes property rights seriously, albeit at an economic cost. However, Mr de la Torre and his colleagues give the drawbacks more weight.

Over time, a dollarised Argentina would have to carry the burden of a misaligned exchange rate. This is because fixity of the currency requires flexibility in domestic prices and wages, and strong fiscal discipline. In a country with Argentina's awful economic history these are hard to achieve. If prices and wages fail to adjust, stagnation can result, and this in turn increases the economy's financial fragility. If fiscal discipline is loose, the risk is greater. Dollarisation, the authors argue, would have been better for Argentina than big-bang pesification plus devaluation, and may still be the best way out—but it is no cure-all.

Mr de la Torre and his co-authors therefore ask how the needed discipline and flexibility might be introduced alongside dollarisation. They suggest “pesification at the margin”. The idea is to use two currencies: an inconvertible peso for domestic transactions, and the dollar for savings. The scheme meets two separate needs: currencies are required both as a means of payment and as a store of value. It is the lack of the second (not counting capital flight) that Argentina so keenly feels at present. Financial dollarisation would fill the void.

At the same time, with the peso free to fall against the dollar, and domestic prices and wages set in depreciating pesos, the government would be able to use peso inflation (an implicit tax) to help balance its books. Meanwhile, the economy would gain a degree of flexibility in real wages and costs through the same channel.

The idea works in principle—assuming that Argentines could be persuaded, or forced, to use this inconvertible peso. But at best, like Mr Schuler's plan, it seems far from ideal. If Argentina's choices have come to this, the hole it has dug for itself is deep indeed.

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* The papers referred to are “Fixing Argentina”, by Kurt Schuler, Cato Policy Paper No. 445, July 2002; and “Argentina's Financial Crisis: Floating Money, Sinking Banking”, by Augusto de la Torre, Eduardo Levy Yeyati and Sergio Schmukler, NBER conference paper, June 2002.

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Conservation

Restoration drama

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Alamy

The science of ecology is helping to bring "ecosystem services" to market

RESTORING damaged habitats to something like their pristine condition is a relatively recent idea. For most of humanity's history, the trend has been in the opposite direction, as people have logged forests, drained marshes and cleared land for agriculture. But as folk have grown more knowledgeable, they have realised that some habitats are useful in their original condition. The result is an increasing desire to recover part of what has been lost. That is helping to change ecology from an academic to a practical science, as the subject's insights are applied both to the task of restoration and to hard-headed assessments of the value of that restoration.

To help the flow of theory into practice, Margaret Palmer, a biologist at the University of Maryland, ran a symposium on the subject at a recent meeting of the Ecological Society of America and the Society for Ecological Restoration, in Tucson, Arizona. According to Dr Palmer, every habitat has an "envelope" of natural variation in its possible structure and composition. Knowing what lies within this envelope is crucial to knowing what to restore, and when to stop. Thus, successful habitat restoration requires an understanding of theories about population biology, competition between species, biodiversity and the stability and variation of ecosystems.

Putting theory into practice, Steve Handel, at Rutgers University, in New Jersey, has shown that derelict urban lands, including such unpromising sites as landfill rubbish dumps, can be restored to resemble old fields with the help of pieces of ecological science known as metapopulation theory and patch-dynamics. These rely on the idea that populations of animals and plants are not permanent, contiguous collections of organisms, as was once believed, but are actually shifting collections of smaller groups that are partly isolated from one another and often exist only temporarily. By manipulating the sizes of patches of plants, Dr Handel has been able to improve insect pollination and seed dispersal, and thus kick-start the restoration process in landfills near New York.

The restoration of surplus agricultural land, too, can benefit from the appliance of science. Sara Baer, at Southern Illinois University, and her colleagues, have shown that previous tillage hampers the restoration of prairie on former farmland in the Great Plains. Ploughing homogenises the soil. That is fine for crops, which are monocultures, but no good for wild plants, which come in a range of species that prefer subtly different conditions. By tweaking the soil's moisture and nutrient content to increase its heterogeneity, Dr Baer has found that she can affect how well a piece of habitat functions once it has been restored. And Dr Palmer has found something similar in aquatic systems. There, having a variety of different particle sizes in the sediment of a stream will affect the rate at which it recovers from environmental damage,

and also its eventual biological productivity.

Similar ideas apply to marine environments. Charles Peterson, of the University of North Carolina at Chapel Hill, has found that mathematical models of the communities of animals and plants in oyster reefs can help to show which animal species may successfully be re-established in a damaged reef.

The most effective attempts at restoration, though, have been those in wetlands. Besides pleasing people who like nature, restoring wetlands brings practical benefits. Not only has ecology shown how to do this, it has also demonstrated that wetland habitats provide valuable “ecosystem services” such as recharging groundwater, attenuating floods and acting as natural filter beds that remove pollutants.

Muck and brass

To give one example, the run-off from an area of land that includes a lot of impervious surfaces such as roads, car parks and driveways tends to contain pollutants, particularly nitrates, phosphates, petrochemicals and bacteria. According to Michael Mallin, a marine biologist at the University of North Carolina, if more than 20% of a catchment area is paved in this way, any bathing or fishing areas into which its water drains will start to become unacceptably polluted by bacteria.

In situations such as this, it is frequently cheaper to restore previously drained wetlands (or even to build new ones from scratch) than to construct water filtration plants. The city of Riverside, in California, for example, saved itself $18m by constructing wetlands rather than a denitrification plant to meet nitrate effluent standards for its local water supply. Water extraction authorities in both Washington, DC, and New York have also found it cheaper to pay for natural filter beds to handle water contamination than to build concrete ones. And in Florida, a 3,500-acre (1,400-hectare) artificial marshland has dealt with agricultural wastewater, bringing phosphate levels down to 17% of what they had previously been.

Applied ecology is also helping, in America, to lubricate “trade” in wetlands. It is not the wetlands themselves that are bought and sold, but rather “wetland credits”. These are issued by so-called mitigation banks to companies or other organisations that protect or restore pieces of wetland. They can then be sold to third parties who wish to destroy some wetland elsewhere. Such transactions are, however, meaningless unless ecologists can confirm that a newly constructed piece of wetland has real environmental benefits. That involves measuring factors such as nutrient uptake, flood alleviation and the presence of suitable plants. Researchers are still learning about what, precisely, makes one piece of wetland equivalent to another. Indeed, in less understood habitats such as the Grand Canyon, attempts at restoration are proving to be a powerful test of the accuracy of ecological theory.

The first mitigation banks appeared at the start of the 1990s, as a result of regulations drawn up by the country's Environmental Protection Agency for the granting of permits for the removal of wetlands. A state's department of transport that wishes to build a road through a wetland, may, for example, be required by the regulations to create an equivalent piece of wetland elsewhere. Rather than actually sending its navvies in to install a new marsh, the state can buy an appropriate amount of wetland credit from people who have earned it the hard way.

There are now around 300 mitigation banks in America, and 100 more are planned. John Ryan, until recently the president of the Wetland Mitigation Banking association, estimates that 8,000-acres' worth of credits were issued last year. Generally, restored wetland costs between $25,000 and $130,000 an acre, depending on the amount of engineering required, the type of wetland and the risk that the restoration project in question may not succeed. It also depends, of course, on the local price of other sorts of land. In New Jersey, wetland credits have been sold for as much as $250,000 an acre.

Such sums are having an impact on the property business. Companies such as GreenVest, based in New Jersey, call themselves “environmental capitalists” and help landowners to value their property in a way that takes account of “eco-assets” such as potential wetland credits. Indeed Tenneco Energy, a utility firm based in Houston, Texas, which has large land holdings in New Jersey, used such a procedure to wipe out the cost of its liability for cleaning up contaminated soil on its property. Restoring the land to wetland not only removed the contaminants, it also allowed Tenneco to sell wetland credits. Furthermore, since conservation areas are not taxed in this part of New Jersey, it saved the firm $300,000 a year in land taxes.

Not surprisingly, some individual mitigation banks and restoration projects have been environmental failures. But the environmental capitalists hope that progress in reconstructing wild places will eventually

provide a robust way of establishing that a wetland really works, and thus has a market value.

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Underwater sensors

Touchy, touchy

Aug 8th 2002
From The Economist print edition

Sensors modelled on fish nerve cells may help robots navigate under water

IMAGINE having to hunt for your prey while blindfolded. In such circumstances even the most formidable terrestrial predators would have difficulties. In the oceans, however, where light and sound are distorted and muffled by the passage of water, hungry fish have evolved the ability to hunt their prey without being able to see it.

Fish pull off this trick with the aid of a sixth sense known as the “lateral-line” system. This consists of chains of nerve cells that extend along the body and in a scattering around the head. These nerve cells, which are known as hair cells because they have hair-like protrusions called cilia on their surfaces, fire off electrical signals when the cilia bend in response to the passage of water. This firing allows a fish to sense pressure changes—and thus to detect the movements of foe or prey.

It would help if underwater robots had an equally robust ability to perceive and navigate their surroundings, but previous attempts to provide it have foundered on one of two opposite problems. Either the size and weight of the sensors have been too great to avoid encumbering the robot or, if they were small and light enough, they were too complicated to manufacture routinely. Now, researchers at the University of Illinois at Urbana-Champaign have cribbed the design for a strong, lightweight sensor from the lateral-line system. And, just as importantly, they have found a way to make it in bulk.

Chang Liu, Fred Delcomyn and their colleagues fabricate their artificial lateral-lines out of silicon and thin films of metal, as they describe in the current issue of the *Journal of Micromechanics and Microengineering*. Their “hair cells” consist of cantilever beams attached to “cilia” made of a magnetisible material. The researchers carved these structures on to the surface of a silicon wafer of the type used to make chips for computers. To do so, they employed the standard chipmaking techniques of depositing chemicals on the wafers, then etching in patterns using solvents. By introducing boron into the silicon, they made the cantilever into a piezoresistive sensor—that is, a sensor that responds to deformation by changing its resistance to the flow of electric current.

The final step was to coax the artificial cilia into standing perpendicular to the surface of the wafer. That was done by lowering the wafer slowly on to a magnet which repelled the cilia, leaving them permanently upright. To test their invention, Dr Liu and his colleagues then mounted some sensors on a glass plate and put them in a water tunnel (the marine equivalent of a wind tunnel) to see if they would respond to variations in flow rate—which they did.

The researchers are now trying to increase the sensitivity of the artificial hair-cells, as well as studying their response to turbulent water. They plan, in collaboration with a team at the Massachusetts Institute of Technology, to install them on to robots and other underwater vehicles within a year. If the plan works, such robots may eventually be able to navigate through the water as easily as hungry sharks—though without, it is to be hoped, such drastic consequences.

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Lasers

Tune in to terahertz

Aug 8th 2002 | EDINBURGH
From The Economist print edition

Lasers now work at new wavelengths

FROM a human point of view, the terahertz frequencies are a curiously barren region of the electromagnetic spectrum. They lie, unexploited, between microwaves at long wavelengths and infra-red at short. They are neglected because no one has developed a convenient source of terahertz radiation. Not yet, anyway. But a laser unveiled by Alessandro Tredicucci of the Scuola Normale Superiore in Pisa, Italy, at the recent International Conference on the Physics of Semiconductors, in Edinburgh, lights the way to the future.

Research into terahertz sources has been driven hard by demand from industry. Terahertz frequencies have great potential in medical imaging because they are strongly absorbed by large biological molecules and by water, and so promise to reveal tissues in astonishing detail. Research carried out by a company called TeraView in Cambridge, England, for example, has indicated that terahertz imaging might distinguish cancerous skin cells from healthy cells. They could also provide long-range security for wireless networking because stray signals would be soaked up by moisture in the atmosphere, preventing the neighbours from eavesdropping. Furthermore, terahertz sources may be useful in environmental sensors which could detect pollutant gases by measuring absorption of the radiation.

Existing terahertz sources are, however, either too unwieldy or too weak to suit all of these uses. And conventional semiconductor lasers, which offer high powers from a conveniently small device, will not pump out photons of the right wavelength. Dr Tredicucci and his team have found a way around this problem by coaxing so-called quantum cascade lasers into producing terahertz radiation.

Quantum cascade lasers were invented a few years ago at Bell Labs, in America, and work rather differently from conventional lasers. In a conventional laser, electrons are “pumped” into an energetically excited state. As they drop back down, they get rid of their extra energy by emitting light. Because all the electrons are excited to the same degree, each gives off an identical amount of energy when it returns to normal. That is why laser light is all the same frequency. The frequency is, however, set by nature—it is a property of the materials used to build the laser. To the frustration of physicists, no semiconducting materials have been found that “lase” at terahertz frequencies.

A quantum cascade laser also works by pumping up electrons. But instead of dropping back in a single step, their fall is controlled so that they give up their energy a bit at a time. The electron “cascades” down as it moves through the laser, which is built from thin layers of different semiconductors. The amount of energy given up at each step, and hence the wavelength of the radiation given off, is governed by the thickness of the layer not the properties of the material. A cascade laser is therefore tuneable. Dr Tredicucci has tuned one to terahertz frequencies.

At first, cascade lasers worked only in the infra-red. To produce lower-energy terahertz radiation the electron's fall needed to be divided into smaller steps. According to the laws of quantum physics, this just required the layers to be fatter. Perhaps predictably, it was not so simple. One of the problems was that electrons in the terahertz lasers were not efficiently recycled and pumped back up. Another was that the photons were escaping haphazardly from the laser. That was no good because, to produce a powerful beam, they have to be channelled through the structure. Dr Tredicucci managed to overcome these problems with the help of Edmund Linfield and Giles Davies of Cambridge University, who grew the layered structures that form the basis of the laser. In May, the researchers announced that they had persuaded a cascade laser to produce pulses of terahertz radiation. Now that they have optimised the design, the laser can produce a continuous beam. That makes it as tempting to industry as cake is to children.

Not all, though, is sweetness and light. To work, Dr Tredicucci's laser needs to be chilled to within 30° of absolute zero. Dr Linfield and Dr Davies hope that they can push the operating temperature up by 50° within the next year. Then they will be able to use liquid nitrogen to cool the device and that, they say, will open opportunities. For example, medical imaging is such big business that people do not balk at cooling components to such low temperatures. The other applications, though, may have to wait until terahertz lasers can stand the heat at room temperature.

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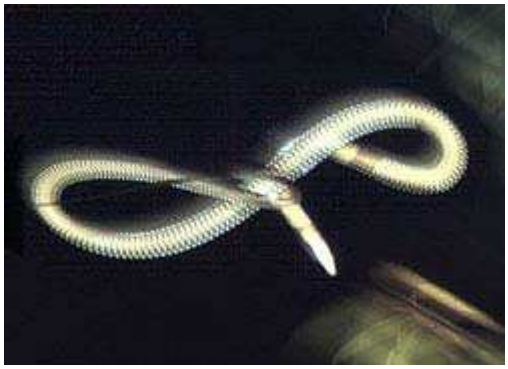
Flying snakes

Aug 8th 2002
From The Economist print edition

This reptilian fuselage is the paradise tree snake of South-East Asia, whose habit of gliding from tree to tree has been the subject of recent research by John Socha, of the University of Chicago. In flight, the snake's body flattens and its belly forms a slightly concave channel. This creates an aerofoil which produces lift, and that lift is enhanced by a sidewinding motion perpendicular to the direction of travel. Dr Socha's study, just published in ***Nature***, reveals a remarkable aeronautical capability for a wingless creature. The shallow angle of descent and the scope of the snake's steering surpass that set by other gliding animals such as flying frogs.



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About sponsorship

Spy novels

An author you can't refuse

Aug 8th 2002
From The Economist print edition

Getty

Robert Littell's 13th novel is creeping up on America—fast

Get article background

The Company: A Novel of the CIA
By Robert Littell

Overlook Press; 894 pages; $28.95.
Macmillan; £16.99

Buy it at
Amazon.com
Amazon.co.uk

WHEN it comes to double-crossing and disinformation, few things in espionage match a publisher's blurb on the back of modern thrillers. Yet the claim that Robert Littell "does for the CIA what Mario Puzo did for the Mafia" is not a bad introduction to a thriller which has sold 100,000 copies in America in the past three months and is well on the way to becoming the summer's beach bestseller.

Like "The Godfather", "The Company" introduces the reader to an engaging underworld that you always had an inkling existed. Like Puzo's epic, this is a sprawling, occasionally disorganised, saga that follows a generation of spooks (and eventually their children) through the whole cold war, beginning in the chaotic world of post-war Berlin and ending with the failed coup against Mikhail Gorbachev. Along the way, the story visits the Hungarian uprising, the Bay of Pigs and Afghanistan; and it brings in Mossad, MI6 and the various incarnations of the KGB.

The authenticity of "The Godfather" grew out of the accumulation of detail. In "The Company" too, the best things are the ones that slowly ooze from the text. There is the slang ("cut-outs", for instance, are the agents who sit between moles and their controllers); the way the early buccaneers in the CIA gradually give way to the bureaucrats; the uneasy relationship with Capitol Hill; the boozy barbecues in Georgetown; and always, always casual betrayal. One character insists to his protégé, right to the end, that he did not sacrifice the latter's girlfriend in Berlin in order to track down a mole in Washington; both of them know he is lying.

That mole was Kim Philby, one of the many actual people to appear in the book. This is an audacious gambit (Puzo introduced an Italian-American singer-actor with Mob connections but never called him Frank Sinatra). Mostly, this works. The stuttering Philby and his lunch partner, James Jesus Angleton, who after the defection of his friend became an understandably paranoid mole-hunter, ease into the narrative; so do Boris Yeltsin and Jack Kennedy, although Mr Littell's attempts to indulge conspiracy theories about Kennedy's relationship with the mobster Sam Giancana and about the supposed assassination of Pope John Paul I slightly jar.

There are other problems, mostly to do with the private lives of the spies. Was it really necessary to

make the Russian spymaster a paedophile, or to trick this out with bits of “Alice in Wonderland”? For a book that takes an admirably unpreachy approach to skulduggery on both sides, the ending is a little jingoistic: did all Uncle Sam's enemies really need to buy it? The mole at the centre of the plot is a little too easy to identify, and readers who remember “The Spy Who Came in from the Cold” may also spot one particular triple-cross.

Inevitably, Mr Littell is being hailed as the American John Le Carré. One big difference, which some readers may welcome, is the lack of introspection. The mole's reasons for spying for Russia, once they are revealed, seem a little trite. Another character, a once idealistic Russian agent, spends most of the book working as an undercover cut-out in Washington: Mr Le Carré, particularly in his current incarnation, would have worried away at such a figure, tempting him to change sides. Mr Littell's accent is on the practical—right up to his last-page conclusion: “We screwed up less than they did. That's why we won.”

The emotions that Mr Littell does arouse come from telling history so well. The anti-Castro Cubans in Miami may now seem an unsympathetic bunch; but read Mr Littell and you might change your mind about the idealistic young men abandoned by Kennedy at the Bay of Pigs. The book's tour de force is its account of the 1956 uprising in Budapest: the viciousness of the reprisals on both sides, the tantalising glimpse of liberty and the predictable betrayal in Washington.

There are few good books about the CIA. Most, including “See No Evil”, by Robert Baer, a rare Arabic-speaking agent, tend to focus on particular episodes. By trying to tell the whole story of the cold war, Mr Littell has aimed magnificently high. Even if he doesn't always succeed, he deserves his place on the beach this summer.

The Company: A Novel of the CIA.
By Robert Littell.
Overlook Press; 894 pages; $28.95.
Macmillan; £16.99

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About sponsorship

Legalising drugs

Choose your poison

Aug 8th 2002
From The Economist print edition

“THE abuse of tea has taken on the characteristics of a plague—it is not only confined to men, but has even spread to women and children. The situation is becoming very dangerous. Tea abuse...takes the form of an imperious and irresistible craving.” Thus a Tunisian physician, horrified by the effects of tea when it first arrived in his country in the 1930s. Thus, does society's view of what constitutes a dangerous drug depend on fashion, familiarity and the way the drug is used.

Will the hysteria about heroin one day seem equally quaint? Tom Carnwath, a senior doctor working with drug users, and Ian Smith, a former heroin user turned social worker, certainly think so. In their level-headed, informative and witty book, they point out that opium was seen until a century ago as a huge benefit. Like aspirin, it cured many ills with mild side-effects. Indeed, by coincidence, both heroin and aspirin were isolated within a fortnight of each other in 1897 by the same team of German researchers—who thought heroin the more medically useful product.

Today, say the authors, heroin remains “a medicine without superior”. But, thanks to the international war on drugs, the “God-given benefits of the poppy”, once accessible to the poorest sufferer, are now unavailable in most countries even to those suffering the pain of terminal cancer.

And why? The war on heroin is based on a view of the drug as misguided as the Tunisian physician's view of tea, argue the authors. Most heroin users are occasional, and most of the rest survive for long periods on regular doses. There is, they insist, no evidence that heroin taken in these ways shortens lives or threatens health. It is mainly the aggressive behaviour of junkies, a minority of users, that gives heroin its demonic reputation. Moreover, as heroin becomes an increasingly middle-class drug, more and more people will discover that the popular hysteria is baseless.

Heroin Century
By Tom Carnwath and Ian Smith

Routledge; 240 pages; $90 and £45 (hardback); $22.95 and £14.99 (paperback)

Buy it at
Amazon.com
Amazon.co.uk

Legalize This! The Case for Decriminalizing Drugs
By Douglas Husak

Verso; 197 pages; $18 and £12

Buy it at
Amazon.com
Amazon.co.uk

The authors can be too accepting: their figures for the world drug trade are probably far too high. But their book, which should be read by every politician, parent and physician, is full of common sense. Only the conclusion seems over-optimistic: they predict that, as heroin moves upmarket, it will be legalised relatively soon. Their optimism may reflect the fact that they are British, and Britain has recently begun to adopt a saner approach to drugs.

But international policy on drugs is dictated by the United States, and for a taste of American attitudes, turn to Douglas Husak, a philosopher who is infuriated by his country's draconian drug laws. The sheer scale of incarceration of drug users “makes prohibition the worst injustice perpetrated by our system of criminal law in the 20th century,” he argues. The figures bear out his horror: nearly one prisoner in four in America is locked up for a non-violent drug offence, and drug crimes now often receive harsher punishments than violent assaults, rapes or murders.

Such disproportion rightly infuriates Mr Husak. Step by step, he destroys many of the arguments used by the law's defenders. Sometimes, demolition is easy, as in the case of William Bennett, America's first drug tsar, who said: “The simple fact is that drug use is wrong. And the moral argument, in the end, is the most compelling argument.” Even if moral truths were simple and we could all agree on them, it is a glaring non sequitur to insist that immorality should therefore be criminalised.

Mr Husak's destruction job is elegantly argued and philosophically informed. Will common sense win? Will drugs one day be as available as tea? Mr Husak reminds us of Senator Morris Sheppard's jut-jawed prediction, three years before prohibition's repeal, that the re-legalisation of alcohol sales was as likely as a humming bird's flying to the planet Mars “with the Washington Monument tied to its tail.”

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Exploring Antarctica

White out

Aug 8th 2002
From The Economist print edition

THE case for exploring the Arctic was clear to Europeans, from the 16th century on. A north-east or north-west passage would cut months off the voyage to the Pacific, source of precious spices, rhubarb, silks and tea. No surprise then that attempt after attempt was made to find a way through the ice fields of the north, often at horrendous cost in money and lives until, well into the 19th century, it was finally concluded that no passage existed.

The case for exploring the Antarctic was much thinner. Captain Cook had appeared to settle the matter in 1774, when he noted the existence of "firm fields and vast mountains of ice" making passage to southern latitudes beyond 71 degrees near impossible. The incentives were far less anyway. Still, men—"stirrers abroad and searchers of the most remote parts of the world" as Richard Hakluyt put it—dreamt on. By the 1830s, the idea of taking on one of the world's great remaining geographical challenges was very much in fashion.

The Race to the White Continent: Voyages to the Antarctic
By Alan Gurney

Norton; 320 pages; $26.95 and £19.95 (hardback, 2000); $15.95 and £11.95 (paperback, 2002)

Buy it at
Amazon.com
Amazon.co.uk

This entertaining book, newly published in paperback, is as much about the politics of exploration as about the voyages themselves. Explorers deployed three lines of argument to raise money. One was the pursuit of pure science. The fact was that no one knew if the Antarctic was ice, a continental land-mass, or, as many thought, an open polar sea once the protective wall of bergs could be breached. John Symmes, an American, maintained that at the unexplored poles were gigantic openings into the earth's interior, which consisted of five or more hollow concentric spheres, all of them habitable.

A better argument was commerce. The quest for the north-east passage had resulted in some unforeseen happy consequences for the British, such as the fur trade and whale fishing. The best appeal, though, was to national prestige. Like a three-way space race, America, Britain and France were, by the late 1830s, all vying to better Cook and cross beyond the 75th south parallel for no real reason but glory.

Mr Gurney details these voyages, culminating in the great achievements of Britain's James Clark Ross. Ross failed in his aim to reach the south magnetic pole, though he had earlier been the first man to reach magnetic north. Still, it was 50 years before anyone managed to travel farther south than he had, and it was not until 1911 that the geographic south pole was reached, by Roald Amundsen. Full of arcane detail, and written with delicate dry humour, this is a hugely enjoyable account of Ross and his brave competitors.

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By Alan Gurney.
Norton; 320 pages; $26.95 and £19.95 (hardback, 2000); $15.95 and £11.95 (paperback, 2002)

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New fiction

Taking the plunge

Aug 8th 2002
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IN OUTLINE, “The Dive from Clausen's Pier”, Ann Packer's debut novel, sounds like the stuff of melodrama. It's summer in Madison, Wisconsin. Carrie and Mike are a fresh-faced, all-American couple, recently graduated from college, now engaged to be married and contemplating life together in the cosy lakeside town where they both grew up.

But Carrie has begun to have doubts. Is Mike really the man for her? Things have just about reached a crisis point when Mike makes a fateful leap off Clausen's Pier into shallow water and breaks his neck. The accident leaves him in a coma from which, months later, he will emerge a quadriplegic.

As Mike convalesces, his friends grow more and more concerned about Carrie's apparent coldness. While all around her are weeping and rending their garments over Mike, she remains dry-eyed and tight-lipped. Instead of spending every spare minute at her fiancé's bedside, she sits at home and sews. She is as troubled by this as they are.

The Dive from Clausen's Pier
By Ann Packer

Knopf; 370 pages; $24.
Piatkus Books; £10.99

Buy it at
Amazon.com
Amazon.co.uk

After a chance meeting with an enigmatic, sexy New Yorker called Kilroy, Carrie packs her bags and follows him to the big smoke. She embarks on a passionate affair with Kilroy—and with the city itself—as she slowly works things out: who she is, what she's like, what matters to her, what she wants from life.

Carrie is not a sympathetic character, but she is all the more interesting for it. Ms Packer writes extremely well about the messy nature of Carrie's love for Mike, about her mixed feelings of guilt and selfishness, affection and impatience. And she plays the slower rhythms of Madison against the Broadway boogie-woogie of Manhattan to great effect.

And yet, and yet. For all the fine writing, the confident dialogue and keen observation, not to mention the book's ranking in American bestseller lists, there's no getting around the hackneyed structure of the story, which smacks of teen romance novels. Nevertheless, there's so much to admire in “The Dive from Clausen's Pier” that one can only look forward to Ms Packer's next offering.

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By Ann Packer.
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About sponsorship

Economic history

Visible hands

Aug 8th 2002
From The Economist print edition

Four readable books about the economic past that might take your mind off the bear market

IN THE workplace, at least, the rugged individualism of the United States is now history. In 1800, a mere 20% of Americans worked for somebody else, as waged and salaried employees. Today, 90% do. Charles Perrow, a Yale sociologist, explores the origins of this change in the decades up to 1910, concentrating much of his attention on the railways. In a follow-up book he intends to show how big bureaucratic organisations became the norm, not just in business but also in government, schools and even charities. Readers of this volume will look forward to the sequel.

Organizing America: Wealth, Power, and the Origins of Corporate Capitalism
By Charles Perrow

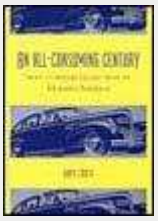
Princeton University Press; 259 pages; $34.95 and £24.95

Buy it at
Amazon.com
Amazon.co.uk

MORE and more Americans—and more people around the world as well—are pursuing happiness by way of shopping. This triumph of consumerism was not inevitable, says Gary Cross, a professor of history at Penn State University. Prohibitionists, hippies and greens all presented alternative visions of life. So did communists, whose fall, in his view, had more to do with the appeal of capitalist consumerism than that of political democracy.

This readable modern history is enlivened by illustrations from ad campaigns. It breaks its subject into four periods: setting the course (1900-30); promise of more (1930-60); a new consumerism (1960-80); and markets triumphant (1980-2000). The final chapter explores consumerism's chance of prevailing also in the 21st century. Mr Cross, for one, hopes it does not, fearing round-the-clock shopping's threat to the environment, to a sense of community, and to democracy itself.

An All-Consuming Century: Why Commercialism Won in Modern America
By Gary Cross



Columbia University Press; 320 pages; $29 and £20 (hardback); $18.50 and £13.50 (paperback)

Buy it at
Amazon.com
Amazon.co.uk

ROGER BACKHOUSE wanted to avoid writing a Whig history, an account of economic thinking that starts with crude beginnings and works, like a science, inexorably towards contemporary truth. Thinking like a historian he has tried, instead, to explain how economics got to where it is, especially in its inter-connections with other disciplines. He has largely succeeded. He takes it for granted that economic ideas influence real-world behaviour—and always have. Before 1900, thinkers who analysed economic phenomena included philosophers, theologians, legal scholars, mathematicians or scientists. Adam Smith, a moral philosopher, is a good example.

The Ordinary Business of Life: A History of Economics from the Ancient World to the Twenty-First Century
By Roger E. Backhouse

The book begins with Homer, Plato and Aristotle. It ends with Schumpeter, Keynes, Hicks, Samuelson, Galbraith, Friedman and other noted economists of modern times. Machiavelli, St Augustine and Newton also crop up. There are a few charts; the text is accessible to the diligent layman.

Princeton University Press; 368 pages; $35

Buy it at
Amazon.com
Amazon.co.uk

"SOCIALISTIC and vicious," cried the New York Chamber of Commerce when a 2% tax was proposed on the incomes of the wealthiest people in the United States.

The quotation comes from a lively account by Steven Weisman, a veteran reporter for the *New York Times*, of the campaign to establish a federal income tax. This stretched over 60 years. As a revenue source, manufacturers much preferred import duties. It took till 1909 for Congress to win the power "to lay and collect" income taxes. Only in 1913 was the necessary amendment ratified.

Mr Weisman rescues the reputations of William Jennings Bryan and his populist supporters, whom the respectable classes denounced as extremists. Much of what the prairie firebrand recommended—if not always for the right reason—is now mainstream: free trade, taxes on income and an end to the gold standard.

The Great Tax Wars: Lincoln to Wilson, The Fierce Battles Over Money and Power that Transformed the Nation
By Steven R. Weisman

Simon & Schuster; 432 pages; $27

Buy it at
Amazon.com
Amazon.co.uk

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About sponsorship

Tom Stoppard

Coming ashore

Aug 8th 2002
From The Economist print edition

“Les Mis” for intellectuals or a theatrical tour-de-force?

YOU'VE got to hand it to Sir Tom Stoppard: he doesn't make things easy for himself. At 65, he has reached an age when most well-established playwrights could be forgiven for lifting the pedal. His near contemporary Harold Pinter, for example, turned to shorter pieces years ago. Not Sir Tom. His latest work must be the most ambitious homegrown opening on the London theatre in ages. For his first production since “The Invention of Love” (1997), he has written in fact not one play but three. His new trilogy under the umbrella title, “The Coast of Utopia”, premiered over 12 hours (including two meal breaks) at the National Theatre on August 3rd.

A play that swirls with ideas and argument of the kind we have come to expect from Sir Tom, “The Coast of Utopia” makes a pageant of the lives of a stormy group of mid-19th-century Russian radicals whose theories, hopes and quarrels stamped the history of the next 150 years. For their sweep and daring alone, the three plays “Voyage”, “Shipwreck” and “Salvage” make a journey well worth taking.

Audacity, however, comes with a price. As with previous Stoppard works, “The Coast of Utopia” will best reward theatregoers prepared to do some homework. Similarly biographical in approach, “The Invention of Love” at least told of the life and thwarted, emotionally crippling love of a poet who is a household name in Britain, A.E. Housman. “Travesties” (1972) shone a light on Lenin and James Joyce as they bumped around Zurich in 1917. The new plays, by contrast, involve a larger set of less well-known characters, four turbulent decades of European history (1833-65) and ten locales, including Russian estates, Moscow, St Petersburg, Paris, London and Geneva. Historically rich, it is hard to keep track of: Mikhail Bakunin, Vissarion Belinsky and Alexander Herzen, let's face it, are simply not as familiar as the cast of, say, “EastEnders” or “The Sopranos”.

If there is a central character, it is the complicated and extraordinary Herzen, played with unflagging zeal by Stephen Dillane. At times even this anglophile, expatriate Russian socialist, a man whose attachments include a love of Colman's mustard, is not magnetic enough as a character to hold together a stage epic. But even watchers of “The Coast of Utopia” who lose the plot will be moved by the passion that runs through it with such strength.

It makes more sense with three

The first play, “Voyage”, which opens at the Bakunin country estate, has a melancholy, Chekhovian lilt, as the anarchist Bakunin and his friends speculate about life, love and whether progress will best come to their country by way of western or slavic ideals. (Sir Tom has steeped himself in Chekhov, having adapted “The Seagull” for Sir Peter Hall in 1997.) “Voyage” is the one work in the trio that looks likeliest to have its own onward separate life.

“Shipwreck”, the most tumultuous of the three plays, focuses on the failed European revolutions of 1848. To be crude, you could call this one “Les Misérables” for intellectuals: the staging of the Paris upheavals by Sir Trevor Nunn (who directed the entire trilogy) recalls nothing so much as his own production of that record-breaking musical. Yet here, too, personal and political interact: Herzen must struggle to rescue his ideals from the wreckage of events in the same year as an accident at sea drowns his wife and son.

By the time of “Salvage”, Herzen has settled in London, where his restless inquiry into society continues. “We have more to learn than to teach,” he concludes, experience having tempered Utopianism. The Herzen presented here is the Herzen of “My Past and Thoughts”, one of the greatest of all political memoirs, still passionate in his ideals, but ruefully accepting the simple need to get on and live, a kind of

19th-century Voltaire offering “the summer lightning of personal happiness” as his version of Candide's garden.

How far that lightning will strike audiences is going to depend on telling the westernising Ogarev from the slavophile Aksakov, the anarchist Bakunin from the literary critic Belinsky (played with febrile bravura by Will Keen in the plays' outstanding performance). Cuts would be welcome, but Sir Tom, who is famous for not listening to pleas from directors for dramatic economy, has so far resisted. At times it all feels like a blueprint for a period mini-series—Jeremy Irons as Herzen?—at others like a message play for today. “Shipwreck” in particular sounds alarms for our own disturbed age, and the work as a whole bursts with characters who, right or wrong, display a sense of urgency about how we should live. “The Coast of Utopia” ends elliptically with a single Russian word of affirmation: “Da”.

The National Theatre insists that each play is a self-contained whole. You would expect it to, if it is to sell tickets to visitors in town for a night or two, and if the work is to travel to, for example, New York, which is ill-served for 12-hour marathons. But it is no surprise that the trilogy days are selling most strongly. If you see “Shipwreck” or “Salvage” (the weakest of the three) on its own, you are likely to be lost among characters the clued-up trilogy-goers are welcoming back as old friends. Worse, you will miss the dramatic arc of this remarkable production, as the action courses over decades, in and out of personal calamity and ideological disillusion before coming to shore at what might best be described as a Stoppardian middle way.

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About sponsorship

Rudiger Dornbusch

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From The Economist print edition

Rudiger Dornbusch, a far-from-dismal economist, died on July 25th, aged 60

HOW many economists are worth travelling thousands of miles to see? Rudi Dornbusch was the pre-eminent example of this rarest of species. He was a distinguished economic theorist, and a revered teacher. He was also fascinated by practical questions of economic policy—surprisingly unusual in a top-drawer theorist—and never afraid to offer advice to any government facing economic difficulties that engaged his interest. Rarest of all, though, he was a pleasure to witness in action. If the amusing and provoking Mr Dornbusch was on the list of speakers or attendees (it made no difference which), a conference on the other side of the world would be worth going to regardless of all other considerations.

Mr Dornbusch always relished an intellectual contest. His teaching style, like his approach to conferences, was notoriously confrontational. Economists such as Paul Krugman, Jeffrey Sachs and Larry Summers—none of them retiring types—were among those he put through the mill as students; Kenneth Rogoff, another of that group, and now the chief economist at the International Monetary Fund, reckons that Mr Dornbusch's international finance course at the Massachusetts Institute of Technology is the answer to the question, “When did you last see these men humiliated in public?” But students and colleagues seemed to love being beaten up by Mr Dornbusch. It was no disgrace, after all: it happened to everybody. It was done with great charm, so you could not take offence. Above all, you got so much out of it. A few bruises were a small price to pay for the intellectual excitement Mr Dornbusch invariably aroused.

Always stirring

Mr Dornbusch was born in Krefeld, Germany, in 1942. He was a student at the University of Geneva, graduating in 1966. An adviser urged him to advance his academic prospects by studying in America, so he did his PhD at the University of Chicago. Later, he taught there and at the University of Rochester. He moved to MIT in 1975, where he remained a professor of economics for the rest of his life.

Almost immediately upon arrival in Cambridge, he wrote the paper, a masterpiece of economic theory, that moved him to the highest rank of the profession. “Expectations and Exchange Rate Dynamics”, more often known simply as “the overshooting paper”, was an effort to account for the puzzling, excessively volatile, behaviour of floating currencies.

Suppose, the article said, the supply of money goes up unexpectedly. In the long term, prices will rise and nothing will be any different in inflation-adjusted terms. In the short term, though, prices are slow to adjust, interest rates fall, and so does the currency. Question: why would anybody continue to hold government bonds in this economy, if the interest rate has fallen and the currency is depreciating? The bonds, with their new lower interest rate, would still be worth holding if investors expected the currency to appreciate by enough to offset the interest-rate disadvantage—but the currency is falling. So what happens? Mr Dornbusch answered that the initial fall in the currency will have to be, as it were, too big. The exchange rate must overshoot. The currency has to drop far below its new long-term value to make room for the subsequent appreciation that will persuade investors to hold the bonds.

The answer is obvious once you see it, but certainly wasn't before Mr Dornbusch spelt it out. Also, if the basic idea now seems simple, it is because economists have become accustomed to applying this equilibrium-through-overshooting logic to all kinds of other phenomena. The term “overshooting” has

itself spread far beyond academic economics, and has entered, for instance, the standard vocabulary of financial-market commentary. Even though theory today has moved on from Mr Dornbusch's first model, with its various simplifying assumptions, current theories are in many ways descended from it. As a result, it is scarcely an exaggeration to say that Mr Dornbusch reinvented international macroeconomics.

An extraordinarily productive man, he continued to work hard at theory, as well as writing, with Stanley Fischer, “Macroeconomics”, one of the most highly regarded textbooks of its kind (still a standard text, and now in its eighth edition). By the late 1980s, though, the balance of his interests had shifted away from theory and towards policy work. His ideas poured forth in various forms and forums.

His flair for disputation never moderated. Mr Fischer says that he took as his maxim a statement of Keynes: “Words ought to be a little wild, for they are the assault of thoughts on the unthinking.” Thank heavens, Mr Dornbusch was indeed a little wild. In his later years, that made him, among other things, a first-rate popular writer on economics.

As a policy adviser, he worked in many countries (especially in Latin America) and on all manner of issues. He gave unfailingly trenchant advice to an array of developing-country ministers and officials, including many who had asked him to. As often as not, the ministers and central-bank governors who approached him were former students. They still wanted Mr Dornbusch, albeit at some small cost to their pride, to show them the way.

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Overview

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From The Economist print edition

Although **America's** hesitant recovery is producing few new jobs, personal incomes continue to rise. Payrolls grew by only 6,000 in July, around a tenth of the number expected by forecasters. Wages grew by 0.3% in July, and have risen by 3.2% over the previous 12 months. More evidence of a two-speed labour market emerged: manufacturing shed 7,000 jobs, and construction lost 30,000, but the services sector added 46,000 new employees.

American manufacturers seem to be on the verge of another slump. The Institute for Supply Management's manufacturing index fell to 50.5 in July from 56.2 in June. Readings above 50 indicate an expansion, while readings below 50 indicate contraction. The ISM's services index fell to 53.1 in July from 57.2 in June.

The ranks of **Germany's jobless** rose above the 4m mark, taking the unemployment rate to 9.9% in July from 9.8% in June. **Euro area** unemployment rose from 8.3% in May to 8.4% in June. Spanish unemployment increased from 11.4% to 11.5% over the same period. Producer prices in the **euro area** fell again in June, declining by 1.1% in the previous 12 months.

Britain's industrial output fell by 4.3% in June, its biggest monthly drop since the “winter of discontent” in January 1979. The golden jubilee holiday and the World Cup were partly responsible.

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Output, demand and jobs

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From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr*	1 year	2002	2003	latest	latest	latest	year ago
Australia	+ 3.6	+ 4.2 Q1	+ 4.0	+ 3.8	+ 4.3 Q1	+ 6.3 Q2	6.2 Jul	6.9
Austria	+ 0.3	– 0.6 Q1	+ 0.9	+ 2.6	+ 1.6 May	– 1.1 Apr	4.1 Jun	3.5
Belgium	+ 1.8	– 0.3 Q1	+ 1.3	+ 2.9	– 2.5 May	– 3.3 May	11.8 Jul†	11.1
Britain	+ 3.8	+ 1.5 Q2	+ 1.7	+ 2.9	– 6.6 Jun	+ 4.6 Jun	5.2 May‡	4.9
Canada	+ 6.0	+ 2.1 Q1	+ 3.3	+ 3.5	+ 0.5 May	+ 4.3 May	7.5 Jun	7.0
Denmark	+ 1.4	+ 1.1 Q1	+ 1.6	+ 2.4	+ 2.5 May	+ 1.5 Apr	5.1 Jun	5.2
France	+ 1.4	+ 0.3 Q1	+ 1.4	+ 2.7	+ 0.3 May	– 2.5 Jun	9.0 Jun††	8.6
Germany	+ 0.7	– 1.2 Q1	+ 0.7	+ 2.3	– 2.5 Jun	– 5.2 Jun	9.9 Jul§	9.3
Italy	+ 0.6	+ 0.1 Q1	+ 1.0	+ 2.5	– 1.5 May	– 0.2 May	9.0 Apr	9.5
Japan	+ 5.7	– 1.6 Q1	– 0.3	+ 1.1	– 2.9 Jun	– 3.5 Jun	5.4 Jun	4.9
Netherlands	+ 0.4	+ 0.3 Q1	+ 1.0	+ 2.5	– 3.0 Jun	– 2.1 May	2.5 Jun**	2.0
Spain	+ 2.1	+ 2.0 Q1	+ 2.1	+ 3.0	– 4.4 Jun	na	11.5 Jun	10.6
Sweden	+ 1.1	+ 1.1 Q1	+ 1.7	+ 2.9	+ 1.9 May	+ 4.9 May	4.0 Jun†	4.4
Switzerland	+ 0.7	+ 0.2 Q1	+ 1.0	+ 2.3	– 8.8 Q1	– 2.4 May	2.6 Jul†	1.7
United States	+ 1.1	+ 2.1 Q2	+ 2.7	+ 3.4	+ 0.2 Jun	+ 5.4 Jun	5.9 Jul	4.6
Euro area	+ 1.3	+ 0.3 Q1	+ 1.1	+ 2.6	– 1.2 May	+ 0.7 May	8.4 Jun	8.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 0.6	– 2.0 Q1	na	na	+ 5.5 Jun	+ 2.4 Apr	9.0 Jun†	9.3
Greece	na	+ 4.3 Q1	na	na	+ 0.6 May	+ 9.9 Apr	na	na
Iceland	na	+ 3.12001	na	na	+ 3.3 2001	na	2.3 Jun†	1.2
Ireland	na	+ 2.9 Q1	na	na	+16.5 May	+ 0.3 May	4.3 Jul	3.7
Luxembourg	na	+ 3.52001	na	na	+ 8.8 Apr	+ 4.9 Mar‡‡	2.7 May	2.4
New Zealand	+ 4.3	+ 4.0 Q1	na	na	+ 4.3 Q1	+ 8.3 Q2	5.1 Q2	5.3
Norway	– 1.1	+ 1.0 Q1	na	na	+ 5.3 Jun	+ 3.1 May	3.8 Q2	3.6
Portugal	+ 1.4	+ 1.4 Q1	na	na	– 0.7 Jun	– 1.5 Jun	4.4 Q1†	4.2

*% change at an annual rate. †Not seasonally adjusted. ‡Mar-May; claimant count rate 3.2% in June. §EU harmonised rate 8.3%. **Apr-Jun. ††Revised series. ‡‡New series.

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Prices and wages

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% change on year ago

	Consumer prices		The Economist poll consumer prices forecast		Producer prices		Wages/earnings	
	latest	year ago	2002	2003	latest	year ago	latest	year ago
Australia	+ 2.8 Q2	+ 6.0	+ 2.8	+ 2.6	– 1.1 Q2	+ 5.6	+ 4.3 Q1	+ 5.6
Austria	+ 1.7 Jun	+ 2.8	+ 1.7	+ 1.7	– 1.0 Jul	+ 1.9	+ 2.4 Jun	+ 2.7
Belgium	+ 1.3 Jul	+ 2.7	+ 1.7	+ 1.6	+ 2.4 Jun	+ 0.9	+ 2.6 Q2	+ 2.6
Britain	+ 1.0 Jun	+ 1.9	+ 1.9	+ 2.4	nil Jun	+ 0.4	+ 3.8 May	+ 4.5
Canada	+ 1.3 Jun	+ 3.3	+ 1.7	+ 2.2	– 1.2 Jun	+ 1.5	+ 2.8 May	+ 0.7
Denmark	+ 2.2 Jun	+ 2.3	+ 2.3	+ 2.0	– 1.2 Jun	+ 3.2	+ 4.0 Q1	+ 3.8
France	+ 1.4 Jun	+ 2.1	+ 1.8	+ 1.4	– 1.5 Jun	+ 2.3	+ 3.9 Q1	+ 4.3
Germany	+ 1.0 Jul	+ 2.6	+ 1.4	+ 1.2	– 1.5 Jun	+ 3.1	+ 2.1 Apr	+ 1.5
Italy	+ 2.2 Jul	+ 2.9	+ 2.3	+ 1.9	– 0.8 Jun	+ 2.4	+ 2.4 Jun	+ 2.7
Japan	– 0.7 Jun	– 0.8	– 1.0	– 0.5	– 1.0 Jun	+ 0.8	– 3.2 Jun	+ 2.1
Netherlands	+ 3.4 Jun	+ 4.5	+ 3.6	+ 2.3	– 2.2 Jun	+ 4.3	+ 3.0 Jun	+ 5.1
Spain	+ 3.4 Jun	+ 4.2	+ 3.3	+ 2.7	+ 0.5 Jun	+ 2.4	+ 4.0 Q1	+ 3.4
Sweden	+ 2.0 Jun	+ 2.9	+ 2.4	+ 2.1	– 0.6 Jun	+ 2.2	+ 4.1 May	+ 3.6
Switzerland	– 0.1 Jul	+ 1.4	+ 1.0	+ 1.2	– 1.7 Jun	+ 0.4	+ 2.5 2001	+ 1.3
United States	+ 1.1 Jun	+ 3.2	+ 1.6	+ 2.2	– 2.1 Jun	+ 2.6	+ 3.2 Jul	+ 4.1
Euro area	+ 1.9 Jul	+ 2.8	+ 2.1	+ 1.6	– 1.1 Jun	+ 3.2	+ 3.3 Q1	+ 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 1.1 Jun	+ 3.1	na	na	– 1.9 Jun	+ 1.9	+ 3.2 Q1	+ 5.1
Greece	+ 3.3 Jun	+ 3.9	na	na	+ 3.1 Apr	+ 5.1	na	na
Iceland	+ 4.1 Jul	+ 7.0	na	na	+ 6.2 Jul	+ 6.7	+ 6.9 Jun	+ 8.2
Ireland	+ 4.4 Jun	+ 5.3	na	na	– 1.3 Jun	+ 5.0	+ 8.9 Q1	+ 7.4
Luxembourg	+ 1.7 Jun	+ 2.9	na	na	– 2.4 May	+ 1.4	+ 0.9 May	+ 2.7
New Zealand	+ 2.8 Q2	+ 3.2	na	na	+ 2.8 Q1	+ 8.0	+ 2.1 Q2	+ 1.8
Norway	+ 0.4 Jun	+ 3.8	na	na	–15.8 Jun	+ 3.5	+ 4.6 Q1	+ 4.4
Portugal	+ 3.4 Jun	+ 4.5	na	na	– 3.8 Jun	+ 4.2	na	na

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Economic forecasts

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August averages (previous month's, if changed)

	Real GDP, % change				Consumer prices		Current account	
	Low/high range		average		% increase		% of GDP	
	2002	2003	2002	2003	2002	2003	2002	2003
Australia	3.4/4.6	3.3/4.3	4.0	3.8 (3.9)	2.8 (2.7)	2.6	-3.4(-3.3)	-3.4(-3.6)
Austria	0.5/1.3	2.1/2.8	0.9 (1.2)	2.6	1.7 (1.8)	1.7	-1.9(-2.2)	-1.7(-2.0)
Belgium	0.5/2.6	2.0/3.9	1.3 (1.4)	2.9 (3.1)	1.7 (1.9)	1.6	4.8 (5.0)	4.9 (5.3)
Britain	1.2/2.2	2.0/3.5	1.7	2.9 (3.0)	1.9 (2.1)	2.4 (2.5)	-2.0(-2.2)	-1.9(-2.1)
Canada	2.8/3.9	3.0/4.7	3.3 (3.2)	3.5 (3.6)	1.7	2.2	2.4 (2.2)	2.5 (2.3)
Denmark	1.3/2.1	1.9/2.8	1.6	2.4	2.3	2.0 (2.1)	1.7 (1.9)	1.7 (1.9)
France	1.1/1.8	2.0/3.2	1.4	2.7 (2.9)	1.8	1.4 (1.5)	1.7 (1.8)	1.6 (1.7)
Germany	0.3/1.0	1.5/3.0	0.7 (0.9)	2.3 (2.6)	1.4 (1.5)	1.2 (1.4)	1.2 (1.1)	1.1
Italy	0.6/1.7	1.5/3.2	1.0 (1.2)	2.5 (2.8)	2.3	1.9 (2.0)	nil (0.1)	nil
Japan	-1.0/1.0	0.1/2.1	-0.3	1.1 (1.2)	-1.0	-0.5 (-0.4)	2.8 (2.7)	2.8 (2.7)
Netherlands	0.5/1.6	1.5/3.3	1.0 (1.2)	2.5 (2.8)	3.6	2.3 (2.5)	4.0	4.2 (4.1)
Spain	1.8/2.3	2.2/3.5	2.1 (2.2)	3.0 (3.3)	3.3	2.7 (2.8)	-2.1(-2.2)	-1.8(-1.9)
Sweden	1.4/2.0	2.1/3.4	1.7	2.9	2.4	2.1	3.3 (3.2)	3.4 (3.3)
Switzerland	0.5/2.0	1.3/3.7	1.0 (1.1)	2.3	1.0 (0.8)	1.2	9.8	10.1
United States	2.3/3.2	2.3/4.2	2.7 (2.8)	3.4 (3.5)	1.6 (1.7)	2.2 (2.3)	-4.4(-4.3)	-4.7(-4.6)
Euro area	0.9/2.0	1.8/3.0	1.1 (1.2)	2.6 (2.8)	2.1 (2.2)	1.6 (1.8)	0.4	0.5

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan Chase, Morgan Stanley, Nordbanken, Decision Economics, BNP Paribas, Royal Bank of Canada, Schroder Salomon Smith Barney, Scotiabank, Shinsei Bank, UBS Warburg

Each month *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's forecasts, where different, are shown in brackets. Our forecasters are not yet panicking about the American economy, which is expected to grow by a respectable 2.7% this year, and 3.4% in 2003. The Japanese economy might shrink by 1% or grow by 1% this year, depending upon whom you ask, but all forecasters expect a modest recovery in 2003. Several European economies, including Germany and Italy, have seen their growth forecasts cut. Our forecasters see little chance of America narrowing its giant current-account deficit. It is now expected to reach 4.7% of GDP in 2003.

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Money and interest rates

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	Money supply* % change on year ago			Interest rates % p.a. (Aug 7th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	– 1.3	+12.3	Jun	4.87	5.05	4.85	5.71	6.00	6.95
Britain	+ 9.6	+ 6.5	Jun	3.88	4.94	3.93	4.63	4.91	5.96
Canada	+14.5	+ 5.8	Jun	2.78	4.02	3.04	5.16	5.61	7.19
Denmark	+ 3.2	+ 7.3	Jun	3.60	4.80	3.94	4.74	5.11	6.86
Japan	+30.6	+ 3.3	Jul	0.02	0.02	0.03	1.28	1.37	1.38
Sweden	+ 2.5	+ 7.3	Apr	4.19	4.29	4.42	4.96	5.17	4.95
Switzerland	+ 8.5	+ 4.3	Jun	0.79	3.19	0.83	2.88	3.29	4.06
United States	+ 5.6	+ 7.2	Jun	1.68	3.51	2.08	4.29	5.06	6.69
Euro area†	+ 6.9	+ 7.1	Jun	3.34	4.43	3.41	4.48	4.84	5.68

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.31%, Japan No.240 1.28%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.002%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

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1995=100

	Jul 30th	Aug 6th*	% change on one month	% change on one year
Dollar index				
All items	71.5	72.0	– 1.5	+ 5.3
Food	74.2	75.6	+ 1.4	+ 8.9
Industrials				
All	68.0	67.3	– 5.7	+ 0.2
Nfa†	70.0	70.6	– 3.3	+ 2.8
Metals	66.2	64.5	– 7.8	– 2.0
Sterling index				
All items	71.8	73.9	– 1.0	– 3.0
Euro index				
All items	95.3	98.3	+ 1.4	– 4.3
Yen index				
All items	91.4	92.7	+ 0.8	+ 2.9
Gold				
$ per oz	305.55	305.70	– 2.6	+14.7
West Texas Intermediate				
$ per barrel	27.36	27.15	+ 4.0	– 3.5

* Provisional. † Non-food agriculturals.

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Stockmarkets

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Market indices

	Aug 7th	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	2,999.4	3,440.0	2,937.8	- 1.1	-12.8	-10.7	- 6.5
Austria (ATX)	1,122.6	1,357.2	1,114.4	- 1.6	-35.4	- 1.6	+ 7.3
Belgium (Bel 20)	2,119.2	2,899.8	2,001.6	- 6.1	-42.4	-23.8	-17.0
Britain (FTSE 100)	4,094.4	5,323.8	3,777.1	- 3.6	-40.9	-21.5	-17.3
Canada (Toronto Composite)	6,486.7	7,958.1	6,161.1	- 1.8	-43.0	-15.6	-15.0
Denmark (KBX)	180.2	233.4	169.0	- 1.9	-40.3	-19.8	-12.5
France (SBF 250)	2,204.0	3,081.9	2,067.7	- 4.0	-49.8	-26.1	-19.4
(CAC 40)	3,270.5	4,688.0	3,023.7	- 4.2	-52.8	-29.3	-22.9
Germany (Xetra DAX)	3,465.5	5,462.6	3,332.7	- 6.3	-57.0	-32.8	-26.8
Italy (BCI)	1,147.4	1,513.0	1,077.8	- 2.3	-47.4	-20.0	-12.7
Japan (Nikkei 225)	9,834.4	11,979.9	9,420.9	- 0.4	-74.7	- 6.7	+ 1.5
(Topix)	962.3	1,139.4	922.5	- 0.3	-66.6	- 6.8	+ 1.4
Netherlands (AEX)	337.2	531.2	318.5	- 7.3	-51.9	-33.5	-27.5
Spain (Madrid SE)	636.2	848.1	625.9	- 2.9	-44.5	-22.8	-15.9
Sweden (Affarsvarlden Gen)	149.7	236.8	143.5	- 5.0	-62.6	-35.3	-29.3
Switzerland (Swiss Market)	5,054.2	6,694.1	4,607.8	- 2.7	-39.9	-21.2	-13.0
United States (DJIA)	8,456.2	10,635.3	7,702.3	- 3.2	-27.9	-15.6	-15.6
(S&P 500)	876.8	1,172.5	797.7	- 3.8	-42.6	-23.6	-23.6
(Nasdaq Comp)	1,280.9	2,059.4	1,206.0	- 3.6	-74.6	-34.3	-34.3
Europe (FTSE Eurotop 300)*	916.0	1,279.7	862.3	- 4.5	-46.3	-27.4	-20.8
Euro area (FTSE Ebloc 100)*	765.2	1,125.1	732.5	- 4.5	-50.6	-31.2	-25.0
World (MSCI)†	798.2	1,024.4	756.7	- 3.9	-44.9	na	-20.5
World bond market (Salomon)‡	488.6	497.8	430.3	+ 0.2	- 1.8	na	+11.1

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

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From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2002	Current account The Economist poll % of GDP, forecast 2003	Exchange rate trade-weighted† Aug 7th	Exchange rate trade-weighted† year ago	Currency units per $ Aug 7th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2002‡
Australia	− 0.1 Jun	− 9.5 Q1	− 3.4	− 3.4	71.2	72.8	1.87	1.93	2.86	1.81	1.55	0.1
Austria	− 2.4 Apr	− 1.3 May	− 1.9	− 1.7	100.7	100.1	1.03	1.14	1.58	–	0.86	-0.3
Belgium	+ 13.0 May	+ 13.0 Dec	+ 4.8	+ 4.9	100.0	98.7	1.03	1.14	1.58	–	0.86	nil
Britain	− 45.6 May	− 31.2 Q1	− 2.0	− 1.9	106.7	105.5	0.65	0.71	–	0.63	0.54	-0.8
Canada	+ 34.7 May	+ 14.7 Q1	+ 2.4	+ 2.5	74.6	78.7	1.58	1.53	2.43	1.54	1.31	1.0
Denmark	+ 7.1 May	+ 3.5 May	+ 1.7	+ 1.7	103.1	101.7	7.65	8.49	11.7	7.43	6.35	2.2
France	+ 8.5 May	+ 26.2 May	+ 1.7	+ 1.6	102.8	101.2	1.03	1.14	1.58	–	0.86	-2.0
Germany	+ 96.5 May	+ 19.8 May	+ 1.2	+ 1.1	99.9	98.1	1.03	1.14	1.58	–	0.86	-2.8
Italy	+ 9.3 May	− 1.4 Apr	nil	nil	73.3	72.2	1.03	1.14	1.58	–	0.86	-1.4
Japan	+ 76.3 May	+101.3 May	+ 2.8	+ 2.8	135.0	138.0	120	123	185	117	–	-8.0
Netherlands	+ 23.6 May	+ 13.6 Q1	+ 4.0	+ 4.2	99.0	97.5	1.03	1.14	1.58	–	0.86	0.1
Spain	− 36.9 May	− 16.6 Apr	− 2.1	− 1.8	74.9	74.0	1.03	1.14	1.58	–	0.86	-0.3
Sweden	+ 14.3 Jun	+ 8.4 May	+ 3.3	+ 3.4	75.5	76.0	9.60	10.4	14.7	9.32	7.97	2.1
Switzerland	+ 2.7 Jun	+ 25.7 Q1	+ 9.8	+10.1	114.6	109.2	1.50	1.72	2.31	1.46	1.25	na
United States	−430.3 May	−398.1 Q1	− 4.4	− 4.7	115.3	119.6	–	–	1.53	0.97	0.83	-1.0
Euro area	+ 72.7 May	+ 20.2 May	+ 0.4	+ 0.5	81.0	77.9	1.03	1.14	1.58	–	0.86	-1.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 12.5 May	+ 7.9 May	na	na	79.2	77.8	1.02	1.14	1.56	–	0.85	3.2
Greece	− 19.1 Dec	− 6.7 Mar	na	na	57.9	57.3	1.02	1.14	1.56	–	0.85	0.4
Iceland	+ 0.1 Jun	− 0.2 Q1	na	na	na	na	85.9	98.7	132	83.4	71.3	-0.5
Ireland	+ 33.9 May	− 0.4 Q1	na	na	89.0	86.9	1.02	1.14	1.56	–	0.85	0.1
Luxembourg	− 2.9 May	+ 1.7 Q1	na	na	100.0	98.7	1.02	1.14	1.56	–	0.85	2.2
New Zealand	+ 0.2 Jun	− 1.2 Q1	na	na	83.2	80.5	2.12	2.38	3.26	2.06	1.76	0.1
Norway	+ 25.3 Jun	+ 26.1 May	na	na	103.2	95.8	7.54	9.08	11.6	7.32	6.26	14.0
Portugal	− 12.9 Apr	− 9.3 May	na	na	90.0	89.1	1.02	1.14	1.56	–	0.85	-2.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD forecast.

Text refers only to the first 16 countries listed

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Exchange-rate forecasts

Aug 8th 2002
From The Economist print edition

Exchange-rate forecasts

from J.P. Morgan Chase, currency units per $

	Aug 7th	3-month	12-month
Euro area*	0.98	1.00	1.01
Japan	120	118	117
Australia	1.86	1.80	1.61
Britain†	1.54	1.57	1.59
Canada	1.58	1.55	1.45
Denmark	7.62	7.45	7.35
Sweden	9.57	9.04	8.53
Switzerland	1.50	1.47	1.49
China	8.28	8.26	8.20
Singapore	1.77	1.74	1.70
South Korea	1,204	1,170	1,116
Brazil	3.07	2.77	2.62
Mexico	9.74	9.64	9.60
Poland	4.19	4.05	4.07
Russia	31.6	32.3	33.4
South Africa	10.4	10.9	11.4

*$ per € †$ per £

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Overview

Aug 8th 2002
From The Economist print edition

Argentina's consumer prices rose by 3.2% between June and July, a smaller rise than in recent months, but enough to bring the annual inflation rate to 32.9%. **Venezuela's** inflation rate is not far behind: it reached 22% in the year to July.

Turkey's current account moved into a $884m deficit over the first five troubled months of 2002, compared with a surplus of $544m over the same period last year.

Industrial production in the **Philippines** grew by 10.7% in the year to May, while consumer-price inflation ran at just 2.6% in the year to July, the lowest since January 2000.

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Political and economic stability

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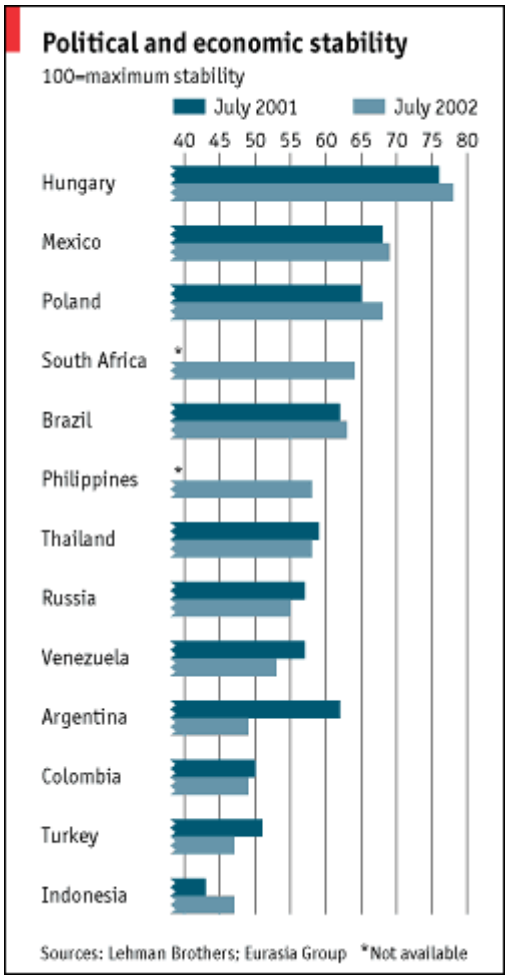
From The Economist print edition

Hungary is the most stable emerging economy, according to an index produced by Lehman Brothers and Eurasia Group, a firm that analyses political risk. The index seeks to measure a country's ability to withstand crises and to avoid generating them. Political factors are given a weighting of 60%; economic factors account for the rest. The ratings of Hungary, Mexico and Poland have improved over the past year. But Argentina, beset by economic and political turmoil, has suffered a sharp fall in its stability, dropping far down the rankings. South Africa is included for the first time, coming in just above Brazil.



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Economy

Aug 8th 2002
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 8.0	Q2	+12.4	Jun	– 0.8	Jun	+27.9	Jun	+21.2	2001§	237.2	Apr
Hong Kong	– 0.9	Q1	–11.6	Q1	– 3.3	Jun	– 8.5	Jun	+14.1	Q1	112.3	Jul
India	+ 6.4	Q1	+ 3.8	May	+ 4.2	Jun	– 5.4	Jun	+ 1.4	Q1	56.5	Jul
Indonesia	+ 2.5	Q1	– 9.4	Q4	+10.1	Jul	+27.5	Jun	+ 8.4	Q3	28.4	Jun
Malaysia	+ 1.1	Q1	+ 4.9	Jun	+ 2.1	Jun	+13.4	Jun	+ 7.0	Q1	32.4	Jun
Philippines	+ 3.8	Q1	+10.7	May	+ 2.6	Jul	+ 2.5	May	+ 5.6	Apr	14.2	Jun
Singapore	+ 3.2	Q2	+18.9	Jun	+ 0.1	Jun	+ 5.7	Jun	+18.4	Q1	80.4	Jun
South Korea	+ 5.7	Q1	+ 5.4	Jun	+ 2.1	Jul	+ 9.0	Jul	+ 5.7	Jun	112.4	Jun
Taiwan	+ 0.9	Q1	+ 8.4	Jun	+ 0.4	Jul	+18.6	Jul	+22.0	Q1	148.2	Jun
Thailand	+ 3.9	Q1	+ 6.2	Jun	+ 0.1	Jul	+ 3.8	Jun	+ 6.6	Jun	36.0	Jun
Argentina	–16.3	Q1	–12.4	Jun	+32.9	Jul	+12.6	Jun	nil	Q1	9.6	Jun
Brazil	– 0.7	Q1	– 0.9	May	+ 7.7	Jun	+ 6.4	Jul	–18.1	Jun	41.9	Jun
Chile	+ 1.5	Q1	– 2.0	Jun	+ 2.6	Jul	+ 2.3	Jun	– 1.0	Q1	15.1	Jun
Colombia	+ 0.5	Q1	– 0.7	May	+ 6.2	Jul	+ 0.5	May	– 1.4	Q1	10.7	Jun
Mexico	– 2.0	Q1	+ 0.9	May	+ 4.9	Jun	– 9.2	Jun	–16.8	Q1	45.5	Jun
Peru	+ 3.6	Jun	+ 8.6	Apr	nil	Jul	nil	May	– 1.0	Q1	8.7	Jun
Venezuela	– 4.2	Q1	–20.0	Mar	+22.0	Jul	+ 8.0	Q1	+ 1.8	Q1	6.7	May
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.8	May	– 8.4	Mar	– 0.1	Q1	12.7	Apr
Israel	– 4.2	Q1	+ 0.1	May	+ 6.6	Jun	– 6.4	Jun	– 2.3	Q1	22.8	Jul
South Africa	+ 2.1	Q1	– 0.1	Jun	+ 8.9	Jun	+ 3.5	Jun	– 0.1	Q1	5.9	Jun
Turkey	+ 2.3	Q1	+11.0	May	+41.3	Jul	– 9.7	May	– 2.0	May	22.3	Jun
Czech Republic	+ 2.5	Q1	+ 5.1	May	+ 1.2	Jun	– 2.5	Jun	– 2.4	Q1	21.4	Jul
Hungary	+ 2.9	Q1	+ 4.1	Jun	+ 4.8	Jun	– 2.3	Jun	– 1.9	Jun	10.2	Jun
Poland	+ 0.5	Q1	+ 2.2	Jun	+ 1.6	Jun	–10.6	Jun	– 6.6	Jun	27.1	Jul
Russia	+ 3.7	Q1	+ 4.4	Jun	+14.9	Jul	+43.4	May	+28.3	Q2	39.6	Jul
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+ 6.3	Mar	+ 4.4	Jun	– 1.2	Jun	+ 0.3	2001†	4.1	May
Saudi Arabia	+ 1.2	2001	na		– 0.2	Apr	+44.1	2001	+14.5	2001	18.3	Jun

*Excluding gold, except Singapore; IMF definition. †Year ending June. §Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

Aug 8th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Aug 7th		Dec 31st 2001	
	Aug 7th	year ago	Aug 7th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.7	na	1,740.9	+1.0	+ 1.7	+ 1.7
Hong Kong	7.80	7.80	12.0	1.73	9,977.7	-2.8	- 12.5	- 12.5
India	48.7	47.1	74.6	5.80	3,009.5	+0.7	- 7.8	- 8.6
Indonesia	9,060	9,330	13,896	15.37	447.1	- 3.6	+ 14.0	+ 30.9
Malaysia	3.80	3.80	5.83	3.20	721.7	+ 0.0	+ 3.7	+ 3.7
Philippines	51.7	53.2	79.3	6.81	1,091.2	-2.9	- 6.6	- 6.7
Singapore	1.77	1.78	2.71	0.75	1,494.7	-0.9	- 7.9	- 3.7
South Korea	1,205	1,280	1,848	4.80	679.4	-5.4	- 2.1	+ 6.8
Taiwan	33.7	34.6	51.7	2.00	4,720.7	-4.4	- 15.0	- 11.7
Thailand	42.4	45.4	65.0	2.00	367.0	-2.4	+ 20.8	+ 26.0
Argentina	3.62	1.00	5.55	62.00	356.6	-0.8	+ 20.7	- 66.7
Brazil	3.06	2.47	4.70	17.87	9,869.6	+1.1	- 27.3	- 45.2
Chile	697	682	1,069	3.00	5,002.3	+1.0	- 7.3	- 12.1
Colombia	2,673	2,298	4,099	7.74	1,191.3	+0.3	+ 11.2	- 5.2
Mexico	9.73	9.10	14.9	6.53	5,855.9	- 2.8	- 8.1	- 13.4
Peru	3.55	3.50	5.45	3.08	1,157.1	- 1.1	- 1.5	- 4.5
Venezuela	1,348	731	2,067	32.00	7,080.6	- 0.7	+ 7.8	- 39.4
Egypt	4.65	4.22	7.12	7.18	5,294.0	+ 1.7	+ 0.4	- 1.1
Israel	4.71	4.23	7.22	6.40	355.9	- 1.8	- 20.4	- 25.3
South Africa	10.5	8.29	16.2	12.40	9,240.4	+0.0	- 11.5	+ 0.7
Turkey	1,628,500	1,376,500	2,497,793	42.00	10,522.7	+ 2.8	- 23.7	- 31.8
Czech Republic	31.6	38.6	48.5	3.05	445.7	- 1.0	+ 12.9	+ 27.0
Hungary	253	282	388	9.65	6,986.0	- 0.9	- 2.0	+ 6.6
Poland	4.19	4.22	6.43	8.58	12,718.7	- 1.5	- 8.6	- 13.9
Russia	31.6	29.4	48.4	21.00	325.8‡	- 0.1	+ 29.7	+ 25.3
EMF (MSCI)*	1.00	1.00	1.53	na	287.5	- 2.4	na	- 9.4
EMBI+†	1.00	1.00	1.53	na	198.6	+ 3.8	na	- 0.9

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms.
Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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